greater discretion to duty counsel lawyers to dispose of cases up to and including a trial. Manitoba found the expanded duty counsel program to be successful and made it permanent.

In 1999, Legal Aid Ontario implemented an expanded duty counsel pilot project and adopted an "anchor system" that entails local employment of salaried duty counsel lawyers. A preliminary evaluation by Legal Aid Ontario indicated that the expanded program was operating satisfactorily.

Other Pilot Projects

Ontario and New Brunswick are the only two provinces where legal aid services, other than those provided by community legal clinics and the duty counsel program, are provided almost exclusively by private-sector lawyers. Other provinces use a mix of private-sector and staff lawyers. Newfoundland, Nova Scotia, Prince Edward Island, and Saskatchewan use staff lawyers for over 90% of their legal aid cases.

Manitoba and Quebec offer eligible individuals a choice between private-sector and staff lawyers. Clients in these two provinces use private-sector and staff lawyers almost equally.

Legal aid expenditures and caseloads for Canadian provinces for the 1999/2000 fiscal year are as follows.

Legal Aid Expenditures and Caseloads by Province, 1999/2000

Province	Total Expenditures ($000s)	Per Capita Expenditures ($)	Approved Applications	% of Bar Members Providing Legal Aid Services	Delivery Model
Newfoundland	(no data)	(no data)	(no data)	(no data)	mainly staff
Nova Scotia	11,117	11.83	15,481	23	mainly staff
New Brunswick	4,087	5.41	4,637	21	mainly private-sector lawyers
P.E.I.	695	5.04	1,209	21	mainly staff
Quebec	101,943	13.88	215,991	22	staff/private-sector lawyers
Ontario	223,608	19.53	140,903	29	mainly private-sector lawyers
Manitoba	17,637	15.42	17,374	33	staff/private-sector lawyers
Saskatchewan	10,616	10.33	21,891	20	mainly staff
Alberta	26,142	8.82	32,051	22	mainly private-sector lawyers
British Columbia	83,650	20.79	51,534	23	mainly private-sector lawyers

Source of data: Legal Aid in Canada: Resources and Caseload Statistics 1999-2000 (Statistics Canada, 2001)

The 1997 McCamus Report, while acknowledging the certificate program (also known as the judicare model) as the foundation of the Ontario legal aid system, recommended that legal aid

F2

services be delivered through a wide spectrum of alternative means, including the use of staff offices. The report stated that:

> ...we favour setting up Staff Offices with a full range of responsibilities for service delivery in particular areas of the law (e.g., criminal law, family law, and immigration law), in competition with the judicare system, so that conjectures can be tested as to where the comparative advantages and disadvantages of Staff Offices really lie.

In response to the McCamus Report's recommendation, the legal aid system initiated a number of pilot projects designed to test different ways of delivering services using staff lawyers. For the 1999/2000 fiscal year, approximately $3 million was spent on pilot projects. At the time of our audit, many of these projects were either in the process of being evaluated or were scheduled for evaluation in the near future. Our review indicated, however, that most of the projects were significantly underutilized with regard to caseload per staff when compared to their original designs.

Management indicated that some of the projects had been implemented only recently and needed more time to build up caseloads. However, our review of pilot projects that had been operating for a few years indicated that their capacities were not being fully utilized due to restrictions of access and a lack of outreach effort.

Of the $3 million spent on pilot projects in the 1999/2000 fiscal year, $688,000 (23%) was for the refugee law office in Toronto and $2.2 million (74%) was for the family law offices in Toronto, Ottawa, and Thunder Bay. The balance was spent on a number of smaller projects. However, we noted that there had been no creation of a staff office for criminal law, for which about half of all legal aid certificates are issued.

THE REFUGEE LAW OFFICE

The Ontario legal aid system established the refugee law office as a pilot project in 1994. It had 14 staff and, according to the McCamus Report, "was constituted as a pilot project to compare cost-effectiveness and quality of service between a staff clinic and the judicare model." In order to conduct an effective comparison, the mandate and operations of the refugee law office were designed to parallel the activities of the private bar.

The McCamus Report indicated that the quality of service provided by the refugee law office was more than satisfactory. However, according to the Report, the most serious problem with the refugee law office was that "at no time has it been able to attract a sufficient case load to operate at full capacity." The Report also commented that:

> A critical pre-condition for the establishment of the RLO [refugee law office] was that it not interfere in any way with the principle of "counsel of choice". This meant that the Plan [Ontario Legal Aid Plan] could not direct clients to the RLO. At present, if an applicant for legal aid does not have a lawyer, the Plan will supply a list of counsel that includes the RLO, but will go no further.
>
> While the RLO has made efforts to publicize its existence, it is arguable that it underestimated the need for systematic and regular outreach.

The McCamus Report recommended substantially expanding the refugee law office to undertake all initial screenings for legal aid certificates for immigration and refugee matters in Toronto. Successful applicants for legal aid would then be given the choice of using the services of the refugee law office or private counsel.

According to recent internal evaluation reports, the refugee law office continued to be "perceived by both clients and community organizations as providing consistently high quality, expert, conscientious, client-centered services in a multicultural setting."

However, the office has been downsized to only six staff. We also noted that the refugee law office was not even listed in local telephone directories. Management indicated to us that this was an administrative oversight.

FAMILY LAW OFFICES

The family law offices were initiated in January 1998 in response to the McCamus Report. A large, a medium-sized, and a small office were set up in Toronto, Ottawa, and Thunder Bay, respectively, to test the cost effectiveness of staff offices in comparison to large, medium-sized, and small law offices in the private sector.

For the comparison, the Ontario Legal Aid Plan established a caseload benchmark based on the average hours charged for family-law legal aid certificates by private-sector lawyers. With an additional allowance of three hours per week in administration, a normal caseload was established at around 150 closed cases per year or an active burden of 200 open files per staff lawyer.

When compared to the caseload benchmark on a per-staff-lawyer basis, our analysis showed the following:

Comparative Data on Caseload Per Staff Lawyer, 2000–01

Case Status	Caseload Benchmark	Toronto		Ottawa		Thunder Bay	
open	200	61	30	130	65	125	63
closed	150	15	10	140	93	30	20

Source of data: Legal Aid Ontario

Legal Aid Ontario management indicated that the 1998 caseload benchmark was unrealistic. However, current management has not established any benchmarks for evaluating cost effectiveness. In any case, the significant underutilization of the Toronto office, especially when compared to the two smaller offices, should be a major concern.

One important purpose of these pilot projects is to compare the cost effectiveness of using staff lawyers to the cost effectiveness of using private-sector lawyers. Not fully utilizing the client capacity the projects were designed for will negatively affect project cost-effectiveness results. Without allowing these pilot projects to compete fairly with the private sector, their comparative advantages and disadvantages cannot be properly assessed.

Recommendation

In order to properly assess whether its pilot legal aid projects are cost-effective alternative service options, Legal Aid Ontario should ensure that these projects are better designed and managed.

Management Response

Pilot projects are experimental by their very nature. Based on learning from the first pilot project experiments, Legal Aid Ontario will more effectively design and plan future pilot projects.

The original design of the refugee law office anticipated significant numbers of cases being expedited by the Immigration Review Board, and, when that did not happen, adjustments were made in the program. A spring 2001 assessment of the refugee law office indicated that the office is operating at full capacity and that the cost efficiency of cases it handles is comparable with that of cases handled by the private bar. The family law office data reviewed in this audit reflect the earliest days of the pilot projects, and the projects are under continuous assessment as they reach the halfway mark.

ELIGIBILITY FOR LEGAL AID

Legal Aid Ontario assesses the eligibility of all applicants for legal aid certificates based on their financial circumstances and the nature of their legal problems. The financial test is based on both income and assets and takes into account monthly expenses. Individuals with little or no income, or who are on social assistance, usually qualify for legal aid. In some cases, clients may be asked to make a financial contribution towards the cost of their legal services.

Staff at the area offices are to perform eligibility assessments according to the criteria outlined in Legal Aid Ontario's policies and procedures manual. Under exceptional circumstances, applicants who normally would not be eligible may be granted a contribution payment agreement at the discretion of the area-office director. Applicants refused by an area office can appeal to an area committee made up of volunteers and lawyers from the local community.

We found that area offices generally performed eligibility assessments in accordance with the policies and procedures of Legal Aid Ontario. However, there were no guidelines to ensure consistency in the decisions made by the various area committees. We noted that, on average, 30% of area-office directors' decisions were overruled when applicants appealed to the area committees. Our audit indicated that many of these decisions involved judgments concerning the level of the applicant's disposable income. We also noted that the reasons for the area committees' decisions in overruling the area directors were often not documented.

Our discussions with area-office staff indicated they usually spent significantly more of their time justifying their refusals of ineligible applicants than assessing applicants' eligibility. In addition, they were concerned that applicants with similar situations might be treated inconsistently by different area committees.

Recommendation

To ensure consistency in granting legal aid services, Legal Aid Ontario should develop appropriate guidelines to assist area committees in making decisions about whether or not to overrule legal aid area-office assessments of eligibility.

According to recent internal evaluation reports, the refugee law office continued to be "perceived by both clients and community organizations as providing consistently high quality, expert, conscientious, client-centered services in a multicultural setting."

However, the office has been downsized to only six staff. We also noted that the refugee law office was not even listed in local telephone directories. Management indicated to us that this was an administrative oversight.

FAMILY LAW OFFICES

The family law offices were initiated in January 1998 in response to the McCamus Report. A large, a medium-sized, and a small office were set up in Toronto, Ottawa, and Thunder Bay, respectively, to test the cost effectiveness of staff offices in comparison to large, medium-sized, and small law offices in the private sector.

For the comparison, the Ontario Legal Aid Plan established a caseload benchmark based on the average hours charged for family-law legal aid certificates by private-sector lawyers. With an additional allowance of three hours per week in administration, a normal caseload was established at around 150 closed cases per year or an active burden of 200 open files per staff lawyer.

When compared to the caseload benchmark on a per-staff-lawyer basis, our analysis showed the following:

Comparative Data on Caseload Per Staff Lawyer, 2000–01

Case Status	Caseload Benchmark	Toronto		Ottawa		Thunder Bay	
		Actual	% Achieved	Actual	% Achieved	Actual	% Achieved
open	200	61	30	130	65	125	63
closed	150	15	10	140	93	30	20

Source of data: Legal Aid Ontario

Legal Aid Ontario management indicated that the 1998 caseload benchmark was unrealistic. However, current management has not established any benchmarks for evaluating cost effectiveness. In any case, the significant underutilization of the Toronto office, especially when compared to the two smaller offices, should be a major concern.

One important purpose of these pilot projects is to compare the cost effectiveness of using staff lawyers to the cost effectiveness of using private-sector lawyers. Not fully utilizing the client capacity the projects were designed for will negatively affect project cost-effectiveness results. Without allowing these pilot projects to compete fairly with the private sector, their comparative advantages and disadvantages cannot be properly assessed.

Recommendation

In order to properly assess whether its pilot legal aid projects are cost-effective alternative service options, Legal Aid Ontario should ensure that these projects are better designed and managed.

Management Response

Pilot projects are experimental by their very nature. Based on learning from the first pilot project experiments, Legal Aid Ontario will more effectively design and plan future pilot projects.

The original design of the refugee law office anticipated significant numbers of cases being expedited by the Immigration Review Board, and, when that did not happen, adjustments were made in the program. A spring 2001 assessment of the refugee law office indicated that the office is operating at full capacity and that the cost efficiency of cases it handles is comparable with that of cases handled by the private bar. The family law office data reviewed in this audit reflect the earliest days of the pilot projects, and the projects are under continuous assessment as they reach the halfway mark.

ELIGIBILITY FOR LEGAL AID

Legal Aid Ontario assesses the eligibility of all applicants for legal aid certificates based on their financial circumstances and the nature of their legal problems. The financial test is based on both income and assets and takes into account monthly expenses. Individuals with little or no income, or who are on social assistance, usually qualify for legal aid. In some cases, clients may be asked to make a financial contribution towards the cost of their legal services.

Staff at the area offices are to perform eligibility assessments according to the criteria outlined in Legal Aid Ontario's policies and procedures manual. Under exceptional circumstances, applicants who normally would not be eligible may be granted a contribution payment agreement at the discretion of the area-office director. Applicants refused by an area office can appeal to an area committee made up of volunteers and lawyers from the local community.

We found that area offices generally performed eligibility assessments in accordance with the policies and procedures of Legal Aid Ontario. However, there were no guidelines to ensure consistency in the decisions made by the various area committees. We noted that, on average, 30% of area-office directors' decisions were overruled when applicants appealed to the area committees. Our audit indicated that many of these decisions involved judgments concerning the level of the applicant's disposable income. We also noted that the reasons for the area committees' decisions in overruling the area directors were often not documented.

Our discussions with area-office staff indicated they usually spent significantly more of their time justifying their refusals of ineligible applicants than assessing applicants' eligibility. In addition, they were concerned that applicants with similar situations might be treated inconsistently by different area committees.

Recommendation

To ensure consistency in granting legal aid services, Legal Aid Ontario should develop appropriate guidelines to assist area committees in making decisions about whether or not to overrule legal aid area-office assessments of eligibility.

Management Response

Legal Aid Ontario will work more closely with its area committees to ensure that they understand and stay within policy guidelines. Often, applicants bring forward new information at the area-committee stage, resulting in decisions to reconsider eligibility. Legal Aid Ontario recently updated the area-committee manual. The new manual was distributed at the end of September 2001. The manual describes area-committee discretion and procedures. Legal Aid Ontario will monitor the patterns of area-committee decisions to identify any local or systemic problems. Area committees hold annual general meetings to discuss new directions and policy changes.

CLIENT CONTRIBUTIONS

Over the last 10 years, legal aid clients have contributed from $10 million to $20 million per year to legal aid revenues. In the 1999/2000 fiscal year, Legal Aid Ontario was owed $115 million by clients. Of this amount, over $100 million had been established as doubtful based on the history of actual collections from clients in prior years.

We noted that proper financial controls were not in place over client contributions or accounts receivable, despite repeated comments in letters to management in connection with our Office's annual financial statement audits. For example:

- There was no accounts-receivable control ledger, no aging of reports of accounts in default, and no complete doubtful-accounts listing to provide an accurate record and ensure proper management of accounts receivable.
- Monthly reconciliations of bank accounts, a critical control for detecting errors and irregularities, had not been performed for years. These reconciliations were brought up to date towards the completion of our audit.
- Receipt books issued to area offices were not accounted for by head office. In one area office we visited, staff issued receipts purchased from a local stationery store instead of using official Legal Aid Ontario receipts.

In addition, we noted that the systems in place to collect amounts owing from clients were inadequate. Many of the accounts receivable have been outstanding for over 15 years with no collection efforts having been made. The majority of the $100 million in doubtful accounts was secured by liens against real estate properties. However, management indicated that the majority of those doubtful accounts were not collectible because most of the clients were at or below the poverty level and would not be able to pay.

We agreed that many of these clients did not have sufficient income or liquid assets at the time they applied for legal aid. However, Legal Aid Ontario had not reassessed these clients' financial situations to determine if they had improved and if the assets pledged had significantly increased in value. According to Legal Aid Ontario's policy, clients are required to report any changes of financial circumstances within seven days. In addition, area offices are to reassess clients every 12 months, and the amounts of contribution payments may be revised depending on clients' situations.

Management indicated that there were difficulties in collecting on many of the lien accounts in that all liens registered under the old *Legal Aid Act* required an external triggering event (such as the refinancing or sale of a property by the client) before collection could take place. However, our review indicated that all clients had signed agreements stating that the financial assistance received by them was payable "on demand or if in default." Therefore, Legal Aid Ontario could reassess the financial situation of these individuals and set up new payment agreements.

Recommendation

To properly safeguard its assets, Legal Aid Ontario should implement appropriate controls over its accounts-receivable system.

To ensure timely collection of amounts owed, Legal Aid Ontario should follow up on outstanding inactive accounts to assess the current financial situation of clients and take appropriate action, including collection and/or arranging for new payment agreements.

Management Response

Legal Aid Ontario is pressing on with improvements and changes in accounts receivable. In the summer of 2001, Legal Aid Ontario began to tighten up on monthly payment accounts that were in default by advancing the triggering of the certificate-cancellation process in those cases.

Legal Aid Ontario also adopted new cash receipt and deposit processes for area offices. Where possible, Legal Aid Ontario will ensure segregation of duties within the office between collection of cash, functions such as queries from clients on payment agreements, and changing account information on the system. Receipt books and ledgers are now in use, and a new deposit process is also in place.

With the help of recently available technology support, Legal Aid Ontario has started to review all its historical collections data, with a view to determining the likelihood of being able to collect on old accounts. Information-technology improvements expected in the near future will make further improvements possible.

The majority of the accounts-receivable balance are difficult to collect because Legal Aid Ontario has no means of initiating enforcement on liens prior to the new **Legal Aid Services Act, 1998.** ***Legal Aid Ontario is launching a project to review sales or refinancing related to the old liens.***

EFFECTIVENESS OF LEGAL AID SERVICES

The *Legal Aid Services Act, 1998* requires Legal Aid Ontario to provide "consistently high-quality legal aid services in a cost-effective manner" to low-income individuals throughout

Management Response

Legal Aid Ontario will work more closely with its area committees to ensure that they understand and stay within policy guidelines. Often, applicants bring forward new information at the area-committee stage, resulting in decisions to reconsider eligibility. Legal Aid Ontario recently updated the area-committee manual. The new manual was distributed at the end of September 2001. The manual describes area-committee discretion and procedures. Legal Aid Ontario will monitor the patterns of area-committee decisions to identify any local or systemic problems. Area committees hold annual general meetings to discuss new directions and policy changes.

CLIENT CONTRIBUTIONS

Over the last 10 years, legal aid clients have contributed from $10 million to $20 million per year to legal aid revenues. In the 1999/2000 fiscal year, Legal Aid Ontario was owed $115 million by clients. Of this amount, over $100 million had been established as doubtful based on the history of actual collections from clients in prior years.

We noted that proper financial controls were not in place over client contributions or accounts receivable, despite repeated comments in letters to management in connection with our Office's annual financial statement audits. For example:

- There was no accounts-receivable control ledger, no aging of reports of accounts in default, and no complete doubtful-accounts listing to provide an accurate record and ensure proper management of accounts receivable.
- Monthly reconciliations of bank accounts, a critical control for detecting errors and irregularities, had not been performed for years. These reconciliations were brought up to date towards the completion of our audit.
- Receipt books issued to area offices were not accounted for by head office. In one area office we visited, staff issued receipts purchased from a local stationery store instead of using official Legal Aid Ontario receipts.

In addition, we noted that the systems in place to collect amounts owing from clients were inadequate. Many of the accounts receivable have been outstanding for over 15 years with no collection efforts having been made. The majority of the $100 million in doubtful accounts was secured by liens against real estate properties. However, management indicated that the majority of those doubtful accounts were not collectible because most of the clients were at or below the poverty level and would not be able to pay.

We agreed that many of these clients did not have sufficient income or liquid assets at the time they applied for legal aid. However, Legal Aid Ontario had not reassessed these clients' financial situations to determine if they had improved and if the assets pledged had significantly increased in value. According to Legal Aid Ontario's policy, clients are required to report any changes of financial circumstances within seven days. In addition, area offices are to reassess clients every 12 months, and the amounts of contribution payments may be revised depending on clients' situations.

Management indicated that there were difficulties in collecting on many of the lien accounts in that all liens registered under the old *Legal Aid Act* required an external triggering event (such as the refinancing or sale of a property by the client) before collection could take place. However, our review indicated that all clients had signed agreements stating that the financial assistance received by them was payable "on demand or if in default." Therefore, Legal Aid Ontario could reassess the financial situation of these individuals and set up new payment agreements.

Recommendation

To properly safeguard its assets, Legal Aid Ontario should implement appropriate controls over its accounts-receivable system.

To ensure timely collection of amounts owed, Legal Aid Ontario should follow up on outstanding inactive accounts to assess the current financial situation of clients and take appropriate action, including collection and/or arranging for new payment agreements.

Management Response

Legal Aid Ontario is pressing on with improvements and changes in accounts receivable. In the summer of 2001, Legal Aid Ontario began to tighten up on monthly payment accounts that were in default by advancing the triggering of the certificate-cancellation process in those cases.

Legal Aid Ontario also adopted new cash receipt and deposit processes for area offices. Where possible, Legal Aid Ontario will ensure segregation of duties within the office between collection of cash, functions such as queries from clients on payment agreements, and changing account information on the system. Receipt books and ledgers are now in use, and a new deposit process is also in place.

With the help of recently available technology support, Legal Aid Ontario has started to review all its historical collections data, with a view to determining the likelihood of being able to collect on old accounts. Information-technology improvements expected in the near future will make further improvements possible.

The majority of the accounts-receivable balance are difficult to collect because Legal Aid Ontario has no means of initiating enforcement on liens prior to the new **Legal Aid Services Act, 1998*****. Legal Aid Ontario is launching a project to review sales or refinancing related to the old liens.***

EFFECTIVENESS OF LEGAL AID SERVICES

The *Legal Aid Services Act, 1998* requires Legal Aid Ontario to provide "consistently high-quality legal aid services in a cost-effective manner" to low-income individuals throughout

Ontario. The Act further stipulates that Legal Aid Ontario is to establish a quality-assurance program to be carried out by the Law Society to ensure such services are being provided as required.

As mentioned earlier, a quality-assurance program was in place for independent community legal clinics. However, the legal aid certificates program, which accounted for most of Legal Aid Ontario's expenditures, had no quality-assurance program. Discussion with management revealed that, since assuming the administration of legal aid in April 1999, Legal Aid Ontario had not met with the Law Society to discuss how to perform quality assurance of the certificate program. We also noted there was no quality-assurance program in place for the duty counsel program.

At the completion of our audit in May 2001, Legal Aid Ontario had not developed any indicators for measuring and reporting on its effectiveness in providing "consistently high-quality legal aid services in a cost-effective manner" to low-income individuals.

In addition, Legal Aid Ontario had yet to submit its 1999/2000 annual report to the Attorney General. The *Legal Aid Services Act, 1998* requires the submission of an annual report within four months of the fiscal year-end. The annual report is required to include both audited financial statements and a statement of how Legal Aid Ontario has met its performance standards.

Recommendation

To ensure proper accountability for its mandate and the services it delivers, Legal Aid Ontario should develop appropriate performance standards, effectiveness indicators, and a quality-assurance program. In addition, it should measure and report on its effectiveness in providing legal aid services on a timely basis.

Management Response

Developing comprehensive and meaningful performance standards for all of its activities is one of Legal Aid Ontario's strategic goals. At Legal Aid Ontario's provincial office, each department has developed client service performance measures and is using those measures to report quarterly on performance.

Legal Aid Ontario has made establishing corporation-wide quality assurance a priority in its business plan for the current year. Legal Aid Ontario has completed draft terms of reference for a corporation-wide quality-assurance initiative to develop standards and monitoring on a program-by-program basis.

The annual report is now complete and will be submitted to the Attorney General in early fall.

Ontario. The Act further stipulates that Legal Aid Ontario is to establish a quality-assurance program to be carried out by the Law Society to ensure such services are being provided as required.

As mentioned earlier, a quality-assurance program was in place for independent community legal clinics. However, the legal aid certificates program, which accounted for most of Legal Aid Ontario's expenditures, had no quality-assurance program. Discussion with management revealed that, since assuming the administration of legal aid in April 1999, Legal Aid Ontario had not met with the Law Society to discuss how to perform quality assurance of the certificate program. We also noted there was no quality-assurance program in place for the duty counsel program.

At the completion of our audit in May 2001, Legal Aid Ontario had not developed any indicators for measuring and reporting on its effectiveness in providing "consistently high-quality legal aid services in a cost-effective manner" to low-income individuals.

In addition, Legal Aid Ontario had yet to submit its 1999/2000 annual report to the Attorney General. The *Legal Aid Services Act, 1998* requires the submission of an annual report within four months of the fiscal year-end. The annual report is required to include both audited financial statements and a statement of how Legal Aid Ontario has met its performance standards.

Recommendation

To ensure proper accountability for its mandate and the services it delivers, Legal Aid Ontario should develop appropriate performance standards, effectiveness indicators, and a quality-assurance program. In addition, it should measure and report on its effectiveness in providing legal aid services on a timely basis.

Management Response

Developing comprehensive and meaningful performance standards for all of its activities is one of Legal Aid Ontario's strategic goals. At Legal Aid Ontario's provincial office, each department has developed client service performance measures and is using those measures to report quarterly on performance.

Legal Aid Ontario has made establishing corporation-wide quality assurance a priority in its business plan for the current year. Legal Aid Ontario has completed draft terms of reference for a corporation-wide quality-assurance initiative to develop standards and monitoring on a program-by-program basis.

The annual report is now complete and will be submitted to the Attorney General in early fall.

MINISTRIES OF THE ATTORNEY GENERAL, CORRECTIONAL SERVICES, AND THE SOLICITOR GENERAL

3.03–Integrated Justice Project

BACKGROUND

The Integrated Justice Project, a joint initiative between the ministries of the Attorney General, Correctional Services, and the Solicitor General (the Ministries) was instituted in 1996 with the intention of facilitating more modern, effective, and accessible administration of justice. The Project will affect approximately 22,000 employees in the Ministries at 825 different locations across Ontario, as well as municipal police forces, judges, private lawyers, and the general public.

The Project was instituted to provide financial and qualitative benefits to users of the justice system. The need for improvement in the administration of justice in Ontario has been pointed out by a number of judicial inquiries, studies, and coroners' juries, which have recommended faster and better information sharing within the justice system. Better information sharing is expected to:

- increase public and police safety;
- make the justice system more accessible and responsive; and
- reduce or eliminate inefficiencies and delays in the system.

The objective of the Project was to improve information flow by streamlining existing processes and replacing older computer systems and paper-based information exchanges with new, compatible systems and technologies. Information was to be moved electronically between users, reducing the time, effort, and cost that now go into producing and retrieving documents. The main new computer systems are outlined in the following table:

Main New Computer Systems of the Integrated Justice Project

Justice Area	System
police	Computer-aided Dispatch Records Management
Crown attorneys	Case Management
courts	Case Management, Court Scheduling, and Electronic Document Filing Digital Audio Recording of official court records
corrections	Offender Tracking and Information

Source of data: Integrated Justice Project, Project Management Office

In addition, a Common Inquiry system was to be created to allow authorized persons in one justice area to access and thus link to files held in other areas on cases, victims, witnesses, suspects, the accused, and convicted offenders.

The Project was implemented using Common Purpose Procurement. Under this procurement approach, the government and private-sector partners jointly provide necessary human and financial resources and share in resulting risks and rewards. In September 1997, the Ministries selected SHL Systemhouse Co. (SHL) as the prime vendor. SHL led a consortium of private-sector partners (the consortium) to work jointly with the Ministries to decide on and implement the new computer systems. In 1998, EDS Canada Incorporated (EDS) acquired SHL and assumed its contractual obligations.

The contractual arrangements of the Project were first set out in September 1997 in a Master Agreement that was revised in March 1998. Under the Agreement, EDS was to provide approximately 75% of the funding and resources required to implement the Project, while the Ministries were to provide the remaining investment required. Under the risk-sharing provisions of the Agreement, remuneration and financial incentives to EDS were to be contingent on the achievement of specific benefits to the Ministries, such as staff reductions and increased revenues.

A Project Management Office was established in 1997 to co-ordinate the work of the Project. It was to be responsible for preparing and updating the business case and accounting for the investment and benefits pools. Two directors—one chosen jointly by the Ministries and the second from EDS—headed the Office. A joint operations team, made up of a mix of staff from the consortium and the Ministries, had been handling most of the work of the Project.

The Project had been accountable to a deputy ministers committee, made up of the Corporate Chief Information Officer, representing the Management Board of Cabinet, and representatives from the Ministries. In addition, an executive steering committee, with representatives from the Ontario justice system and key stakeholders, had been created to provide advice on the Project.

In March 1998, total project costs were estimated to be $180 million, which were to be recovered through estimated benefits of $326 million. The Agreement required that the new systems be completed by August 2002.

At the time our audit was completed, total project costs incurred were approximately $159 million, and about 200 staff from the Ministries and the consortium were working full-time on the Project. However, due to cost increases and delays, the Ministries were in the process of negotiating with EDS to determine if, when, and how the Project would be completed and at what cost.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Integrated Justice Project were to assess the extent to which:

- adequate systems and procedures were in place to ensure compliance with corporate policies governing the use of Common Purpose Procurement; and
- the Project was administered with due regard for economy.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Prior to the commencement of our audit, we identified the audit criteria that would be used to conclude on our audit objectives. These were reviewed and accepted by senior Integrated Justice Project management.

The scope of our audit included interviews with appropriate staff and review and analysis of policies and procedures, management reports, samples of files, and financial and management systems. We also researched practices in other jurisdictions.

Our audit covered the period to March 31, 2001. We did not rely on the Ministries' internal auditors to reduce the extent of our audit work because they had not recently conducted any substantial work on the Integrated Justice Project.

OVERALL AUDIT CONCLUSIONS

The Integrated Justice Project has experienced significant cost increases and delays. While the March 1998 cost estimate to complete the Project was $180 million, the March 2001 estimate had risen to $359 million. Over the same period, expected benefits were reduced from $326 million to $238 million. In addition, not all systems are expected to be fully implemented by the contractual deadline of August 2002. We had several concerns with respect to these costs increases and delays.

We concluded that the requirement in the Common Purpose Procurement policy that due diligence be performed to support the projections of costs and benefits in a business case was not adequately followed in the Integrated Justice Project. Although we found that the Project had a sufficiently demonstrated need for the use of Common Purpose Procurement and project management conducted a fair and open vendor-selection process, we found the following weaknesses in the original business case, on which project approval was based, and in subsequent business cases used to monitor project progress:

- The schedule in the original business case was aggressive and based on a best-case scenario. It did not adequately take into account the magnitude of change introduced by the Project, the complexity of justice administration—particularly that of the courts—or the ability of vendors to deliver the Project's computer systems in the required time frames.
- Inadequate research in the preparation of the March 1998 business case resulted in projected benefits that were overestimated by over $30 million. In addition, we noted that the estimate of benefits, already reduced to $238 million in the most recent business case, was still overstated by approximately $57 million.

In addition, we noted that no agreement had yet been reached between project management and senior management of the courts on the details for determining expected courts benefits in the amount of $172 million—representing over 70% of the Project's total benefits. This delay in agreeing to these benefits exposed the Project to the risk that not all the benefits identified would be realizable.

Notwithstanding the fact that project management had negotiated prudent contractual arrangements that set a cap of $220 million on total payments to EDS and allowed payments to be made only if and when benefits were realized, we concluded that other aspects of the contractual arrangements with the vendor resulted in the Project not being administered with due regard for economy. Specifically:

- The initially negotiated terms of the Agreement envisioned incentives to the vendor of $51 million, an amount representing more than 40% of the vendor's originally expected investment. The incentives were in addition to allowing the vendor other compensation that was already included in its charges to the Project, such as a significant premium on staff rates, investment interest, and a markup on purchases.
- Negotiated rates for consortium staff were at a premium compared to rates charged by the same vendor to other ministries for similar work. We estimated that the rate difference would, over the life of the Project, increase total costs by up to $25 million.
- The billing rates of consortium staff working on the Project were approximately three times higher than those of the Ministries' staff for similar work. In addition, we noted that an error in calculating the rates of the Ministries' staff would result in the Ministries undercharging the Project by approximately $3 million over the life of the Project. As a result, the consortium would share in project savings at a disproportionately high rate as compared with the Ministries.

We also noted that project management needed to ensure that satisfactory internal controls exist over investment charges to the Project, as well as over the use of consultants. Our audit resulted in the elimination and recovery of over $300,000 in duplicate charges and excessive rent payments.

As well, we had serious concerns that security measures were inadequate over the systems already in use by police and the system to be established for corrections. Until new controls for password protection and data transmission are in place, the confidential information contained in these systems—including data on suspects, victims, witnesses, the accused, and convicted offenders—is vulnerable to unauthorized access and manipulation.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Overall Ministries' Response

The Ministries involved in the Integrated Justice Project appreciate the Ontario Provincial Auditor's comments highlighting areas for improvement. The Ministries are acting on the Auditor's recommendations, and they look forward to participating in the Management Board Secretariat's review of Common Purpose Procurement guidelines.

The Integrated Justice Project is a technological and business transformation initiative unprecedented in its complexity and multiple stakeholder involvement. The Common Purpose Procurement model provides an effective way to achieve the Project's goals because it allows the government to access essential expertise in the private sector and transfer a measure of financial risk from the government to the private sector. To balance the risk, the private sector requires incentives, including suitable rates for staff assigned to the Project. In renegotiating the Master Agreement with EDS, the Ministries will continue to seek an appropriate balance between risk and incentive, and will address the issues raised by the Auditor.

DETAILED AUDIT OBSERVATIONS

COMMON PURPOSE PROCUREMENT

The Management Board of Cabinet's Directive and the Management Board Secretariat's guidelines for Common Purpose Procurement require that an open, competitive process be followed when selecting a private-sector partner. The partner is to work closely with ministries on appropriately qualified projects to jointly identify, design, develop, and implement new ways of delivering services. Ministries and their private-sector partners are required to share the risks, investment, and rewards of a project.

The original guidelines for Common Purpose Procurement issued in November 1995 were revised in October 1998. The revised guidelines provide directions on when the use of Common Purpose Procurement is appropriate, as well as on organizational readiness, competitive vendor selection, negotiation, contracting, project implementation, and management. The guidelines also specify requirements for Management Board of Cabinet approval and annual reporting.

We recognize the existence of significant risks and uncertainties inherent in the Common Purpose Procurement approach. For example:

- Unlike traditional procurement processes, Common Purpose Procurement selects a vendor on the basis of its expertise and experience but not on the basis of a competitively tendered price. Only after the vendor is selected does the government negotiate the vendor staff-billing rates to be charged to the project. In addition, charges to the project are made on a cost-plus basis until all work is completed. The absence of both an initial price competition and a firm price commitment often makes it difficult to assess whether the rates charged to the project are reasonable and value for money has been obtained.
- The ministries and the private-sector partner jointly identify, design, and implement the systems that are to achieve the desired business results. However, the specific nature and

Overall Ministries' Response

The Ministries involved in the Integrated Justice Project appreciate the Ontario Provincial Auditor's comments highlighting areas for improvement. The Ministries are acting on the Auditor's recommendations, and they look forward to participating in the Management Board Secretariat's review of Common Purpose Procurement guidelines.

The Integrated Justice Project is a technological and business transformation initiative unprecedented in its complexity and multiple stakeholder involvement. The Common Purpose Procurement model provides an effective way to achieve the Project's goals because it allows the government to access essential expertise in the private sector and transfer a measure of financial risk from the government to the private sector. To balance the risk, the private sector requires incentives, including suitable rates for staff assigned to the Project. In renegotiating the Master Agreement with EDS, the Ministries will continue to seek an appropriate balance between risk and incentive, and will address the issues raised by the Auditor.

DETAILED AUDIT OBSERVATIONS

COMMON PURPOSE PROCUREMENT

The Management Board of Cabinet's Directive and the Management Board Secretariat's guidelines for Common Purpose Procurement require that an open, competitive process be followed when selecting a private-sector partner. The partner is to work closely with ministries on appropriately qualified projects to jointly identify, design, develop, and implement new ways of delivering services. Ministries and their private-sector partners are required to share the risks, investment, and rewards of a project.

The original guidelines for Common Purpose Procurement issued in November 1995 were revised in October 1998. The revised guidelines provide directions on when the use of Common Purpose Procurement is appropriate, as well as on organizational readiness, competitive vendor selection, negotiation, contracting, project implementation, and management. The guidelines also specify requirements for Management Board of Cabinet approval and annual reporting.

We recognize the existence of significant risks and uncertainties inherent in the Common Purpose Procurement approach. For example:

- Unlike traditional procurement processes, Common Purpose Procurement selects a vendor on the basis of its expertise and experience but not on the basis of a competitively tendered price. Only after the vendor is selected does the government negotiate the vendor staff-billing rates to be charged to the project. In addition, charges to the project are made on a cost-plus basis until all work is completed. The absence of both an initial price competition and a firm price commitment often makes it difficult to assess whether the rates charged to the project are reasonable and value for money has been obtained.
- The ministries and the private-sector partner jointly identify, design, and implement the systems that are to achieve the desired business results. However, the specific nature and

extent of work to be performed is not known during the early phases of a project, and decisions made are based only on the limited information available at the time. This can result in substantial uncertainties and fluctuations in expected costs and benefits and a greater risk of a project not being completed on time.

- The guidelines require the preparation of a business case to justify the project by quantifying its financial benefits. In addition, they state that "the extent to which the vendor anticipates sharing the risks, investment, and benefits will determine the rigour the vendor and ministry apply in reviewing the project business case and performing due diligence to support the projections of costs and benefits." However, there is pressure on project management, in preparing the business case, to minimize costs and achieve benefits as early as possible in order to obtain Management Board of Cabinet approval for the project. As a result, the implementation schedule may be overly optimistic and aggressive. This may subsequently conflict with the expectations of ministries for high-quality systems and minimal program disruptions.

We concluded that, in the case of the Project, management had recognized and taken steps to mitigate many of the risks and uncertainties and generally complied with certain key corporate policies governing the use of Common Purpose Procurement. Specifically, there was a sufficiently demonstrated need for private-sector partnership, and management fairly and openly selected a private-sector partner and negotiated a cap on vendor remuneration. However, as described later in the report, one critical requirement that was not adequately addressed related to the projections used in preparing the business plan. In addition, we identified a number of areas where project management's implementation of Common Purpose Procurement would have had to be improved to ensure the Project was administered with due regard for economy.

Private-Sector Partnership

According to Common Purpose Procurement guidelines, a ministry may seek out private-sector expertise, experience, and resources for large, complex, multi-stage design-build-and-operate projects for which it is unlikely to have the right mix of time, skills, and money to identify, design, and develop its own solutions. Both the ministry and the potential partner must be capable of financing their investment costs in the project. Their costs are to be recovered when cost savings and new revenues are achieved as a result of the project, and recovered costs are to be paid out to each party in the same proportion as the party's investment. Incentive payments for achieving project milestones may also be made to private-sector partners.

We concluded that the Ministries had a sufficiently demonstrated need for private-sector partnership for the Project. No other jurisdictions had an integrated justice system in place that was as extensive as that envisioned in the Project. Given the scope and complexity of the Project, extensive financial and human resources, expertise, and experience would be required to complete the Project, none of which would have been available from within existing Ministries' resources.

Selection Process

We were also satisfied that, overall, the vendor-selection process was fair and open. The Ministries jointly selected the successful vendor through a two-stage process set out in the Common Purpose Procurement guidelines issued by the Management Board Secretariat. In

August 1996, the first stage of the competition was launched, resulting in submissions from three consortiums of vendors. A committee consisting of the Ministries' management evaluated the written proposals on the basis of:

- the financial stability of the primary vendors constituting the consortium team;
- the demonstrated relevant experience and expertise of the vendors;
- the overall proposed approach to meeting the Project's functional requirements; and
- the business arrangements offered, including the extent to which the vendors would finance the project and the vendors' remuneration would be recovered through savings achieved or other innovative means.

In November 1996, the two vendors with the highest scores from the first stage of evaluation proceeded to the second stage, which required that respondents make oral presentations.

In September 1997, at the conclusion of negotiations, the successful vendor, SHL Systemhouse Co., signed a Master Agreement with the Ministries as the prime vendor. The Agreement was revised in March 1998 following the Project's first phase, which comprised a feasibility study and planning. Before signing the revised Agreement, the Ministries and the consortium had an opportunity to further review the business case and agree that the projected costs and benefits were realistic. The Agreement detailed the Project's scope, joint project-management arrangements, conditions and provisions for terminating the Agreement, and procedures for calculating project investment costs, savings, new revenues, and remuneration to be paid to the consortium.

BUSINESS CASE

The business case of the Project sets out projected costs and benefits—according to Common Purpose Procurement guidelines, a ministry and its private sector partner share in the investment costs of a project and divide the remuneration generated from it based on the allocation of risks and attribution of benefits.

The original business case underwent constant review as project work was completed and new information was gathered. It was officially updated at the end of each project phase, at which time project management also reported on the Project's progress to the Management Board of Cabinet.

Due to the risk-reward philosophy of the Common Purpose Procurement approach, as well as the lack of a guaranteed recovery of investment, both parties were required to agree on the business case. In addition, the following two financial conditions had to be met on an ongoing basis throughout the work term in order for the Project to continue:

- the benefit to investment ratio must exceed 1.1:1; and
- the consortium investment must not exceed $200 million, excluding taxes.

If either of these conditions was not met, either party could terminate the contract and receive payments from benefits enabled by the Project to date.

As of March 31, 2001, when investment in the Project had totalled $159 million, the Project was experiencing significant cost increases. Anticipated financial benefits had been reduced and

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

completion dates for new systems had been delayed. The table below shows the differences between the business case as of March 31, 1998 and that as of March 31, 2001.

Estimated Investment Costs and Benefits as of 1998 and 2001

Date of Business Case	Investment Costs ($ millions)	Benefits ($ millions)	Benefit-Investment Ratio
March 31, 1998	180	326	1.81:1
March 31, 2001	312	238	0.76:1

Source of data: Integrated Justice Project, Project Management Office

The business case of March 31, 2001 indicated that neither of the Project's two continuance criteria were being met: the benefit-investment ratio was below 1.1:1, and the consortium investment required—approximately 75% of $312 million—exceeded the $200 million limit. Furthermore, the investment cost amount of $312 million in this business case was understated. Project management estimated that the costs of completing the Project would be $359 million and that project work would extend past the stipulated work-term end date of August 2002. However, since $47 million in costs would be incurred after the work-term end date, and the Agreement did not allow any investment costs to be charged after that date, the business case did not include all of the estimated costs in its March 31, 2001 cost projection.

In March 2001, the Ministries received approval from the Management Board of Cabinet to renegotiate the terms of the Master Agreement with EDS. The negotiations were ongoing at the completion of our audit and were expected to result in a revised business case and new timetable for completion. Management Board approval will be required for any new contract terms.

Should negotiations result in the Ministries deciding to continue with the Project, the successful completion of new systems is dependent on managing a variety of significant risks and pressures. So far, project management has had limited success in doing so, particularly with respect to costs and completion dates. In future, management would have to:

- effectively control project costs, as well as more accurately estimate and achieve benefits;
- deliver, in accordance with revised implementation timelines, final versions of applications software that satisfy the requirements of justice stakeholders; and
- obtain timely approval of required judicial rules-and-regulation changes to enable the implementation of new systems in courts.

Recommendation

Should negotiations result in the Ministries deciding on continuing the Integrated Justice Project, the Ministries should take the appropriate measures that will result in completing the Project in a timely and cost-effective manner. Controls on project management should be reviewed to identify ways to:

- **minimize the risk that the Project will not be completed within the revised timelines and the revised costs will not be exceeded; and**
- **ensure that estimated benefits are, in fact, realizable and ultimately achieved.**

Ministries' Response

The Ministries have initiated improved processes to mitigate and minimize risks and to ensure that benefits can be achieved. With respect to the recommendation:

- ***The Ministries have implemented more effective project controls to minimize the risks concerning timelines and costs identified by the Auditor. These include establishing project-specific and cross-sectoral steering committees and defining clearer lines of accountability.***
- ***In renegotiating the Master Agreement with EDS, documents describing benefits are being reviewed, with the intention of having them renewed and re-signed to demonstrate a common commitment to realizing the benefits. Tough new acceptance criteria are being implemented.***

PROJECT TIMETABLE

The Project has five phases. At the time of our audit, phases 4 and 5 had been reached, as can be seen in the following table.

Actual Project Timetables by Phase

Phase	Description	Actual Beginning and End Dates
1	Feasibility Study/Planning	September 1997–March 1998
2	Requirements Definition	April 1998–October 1998
3	Design	November 1998–April 1999
4	Development/Acquisition	May 1999–Ongoing
5	Implementation	November 2000–Ongoing

Source of data: Integrated Justice Project, Project Management Office

When project management set the original timetable for the Project, its projections of beginning and end dates were more aggressive than the actual dates shown above. In order to implement systems as quickly as possible, management had planned for most new systems to be in use by September 1999 and for all systems to be in final release and fully implemented by August 2001. The following bar chart shows the differences between the Project's originally forecast timetable for the initial releases of the systems and current projections.

completion dates for new systems had been delayed. The table below shows the differences between the business case as of March 31, 1998 and that as of March 31, 2001.

Estimated Investment Costs and Benefits as of 1998 and 2001

Date of Business Case	Investment Costs ($ millions)	Benefits ($ millions)	Benefit–Investment Ratio
March 31, 1998	180	326	1.81:1
March 31, 2001	312	238	0.76:1

Source of data: Integrated Justice Project, Project Management Office

The business case of March 31, 2001 indicated that neither of the Project's two continuance criteria were being met: the benefit-investment ratio was below 1.1:1, and the consortium investment required—approximately 75% of $312 million—exceeded the $200 million limit. Furthermore, the investment cost amount of $312 million in this business case was understated. Project management estimated that the costs of completing the Project would be $359 million and that project work would extend past the stipulated work-term end date of August 2002. However, since $47 million in costs would be incurred after the work-term end date, and the Agreement did not allow any investment costs to be charged after that date, the business case did not include all of the estimated costs in its March 31, 2001 cost projection.

In March 2001, the Ministries received approval from the Management Board of Cabinet to renegotiate the terms of the Master Agreement with EDS. The negotiations were ongoing at the completion of our audit and were expected to result in a revised business case and new timetable for completion. Management Board approval will be required for any new contract terms.

Should negotiations result in the Ministries deciding to continue with the Project, the successful completion of new systems is dependent on managing a variety of significant risks and pressures. So far, project management has had limited success in doing so, particularly with respect to costs and completion dates. In future, management would have to:

- effectively control project costs, as well as more accurately estimate and achieve benefits;
- deliver, in accordance with revised implementation timelines, final versions of applications software that satisfy the requirements of justice stakeholders; and
- obtain timely approval of required judicial rules-and-regulation changes to enable the implementation of new systems in courts.

Recommendation

Should negotiations result in the Ministries deciding on continuing the Integrated Justice Project, the Ministries should take the appropriate measures that will result in completing the Project in a timely and cost-effective manner. Controls on project management should be reviewed to identify ways to:

- **minimize the risk that the Project will not be completed within the revised timelines and the revised costs will not be exceeded; and**
- **ensure that estimated benefits are, in fact, realizable and ultimately achieved.**

Ministries' Response

The Ministries have initiated improved processes to mitigate and minimize risks and to ensure that benefits can be achieved. With respect to the recommendation:

- ***The Ministries have implemented more effective project controls to minimize the risks concerning timelines and costs identified by the Auditor. These include establishing project-specific and cross-sectoral steering committees and defining clearer lines of accountability.***
- ***In renegotiating the Master Agreement with EDS, documents describing benefits are being reviewed, with the intention of having them renewed and re-signed to demonstrate a common commitment to realizing the benefits. Tough new acceptance criteria are being implemented.***

PROJECT TIMETABLE

The Project has five phases. At the time of our audit, phases 4 and 5 had been reached, as can be seen in the following table.

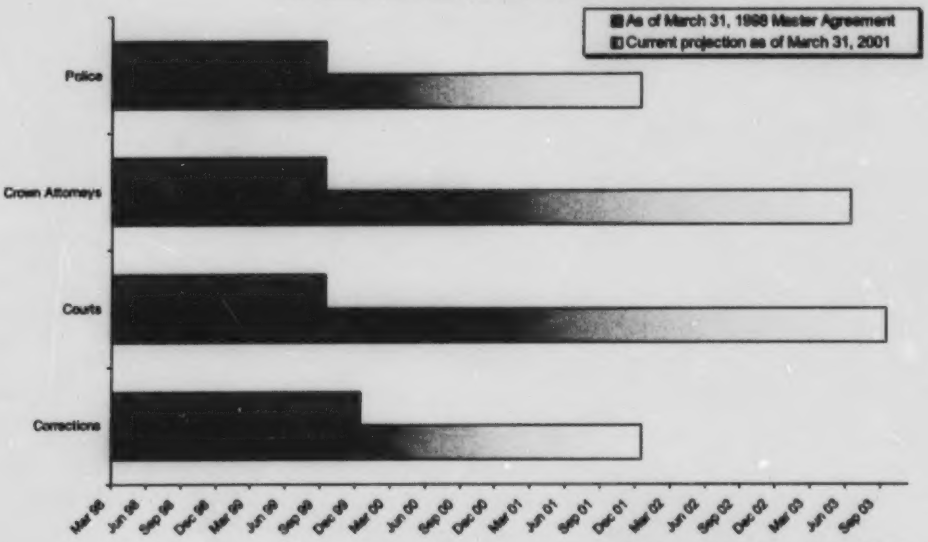
Actual Project Timetables by Phase

Phase	Description	Actual Beginning and End Dates
1	Feasibility Study/Planning	September 1997–March 1998
2	Requirements Definition	April 1998–October 1998
3	Design	November 1998–April 1999
4	Development/Acquisition	May 1999–Ongoing
5	Implementation	November 2000–Ongoing

Source of data: Integrated Justice Project, Project Management Office

When project management set the original timetable for the Project, its projections of beginning and end dates were more aggressive than the actual dates shown above. In order to implement systems as quickly as possible, management had planned for most new systems to be in use by September 1999 and for all systems to be in final release and fully implemented by August 2001. The following bar chart shows the differences between the Project's originally forecast timetable for the initial releases of the systems and current projections.

Original and Revised Timetables for Initial Releases of New Systems by Area



Source of data: Integrated Justice Project, Project Management Office

Several factors did not receive due consideration when management set the original timetable. As a result, both the work involved in the Project and the Project's true cost were significantly underestimated. These factors were acknowledged by project management in its recent report to the Management Board of Cabinet:

- *Magnitude of change*—Project management underestimated the time and work needed for the acceptance and realization of the great degree of change introduced by the Project. For example, the courts system, which was expected to ultimately generate over 70% of the Project's benefits, had been operating with largely paper-based information- and document-management systems. The original plan to implement almost all of the new systems and procedures in the 18-month period between March 1998 and September 1999 incurred a measure of resistance from court staff and the Judiciary.

  Project management also underestimated the time needed for extensive consultations with the justice system's many users, including not only government staff but also federally and provincially appointed judges and other staff who operate independently of the administrative and legislative arms of the government. For example, in the development of the courts' Digital Audio Recording system that was underway at the time of our audit, consultations would need to be held with court staff, members of the Judiciary, members of the private bar, and Crown attorneys.

  As a result of these factors, the implementation plan had to be revised such that all new systems were to be installed independently of each other and their implementation was to be managed through multiple releases.

- *Systems development*—Project management underestimated the time and work needed to customize, develop, and test systems software before and during implementation. Most of the software for the new systems consisted of "off-the-shelf" applications purchased from six vendors that were competitively selected. These vendors were required to develop or customize their existing applications to meet project functional requirements and to ensure compatibility of the new systems; at the same time, EDS began developing new applications that would enable future integration of the various individual systems.

All six applications chosen required longer than the six months allotted for the modifications needed to meet Ontario's requirements and for integration with other systems. In the case of courts systems in particular, the changes needed were extensive and not easily effected. The customization problems were intensified by the fact that the application vendors were generally smaller companies in niche markets with limited resources to do the work required within the allotted time frames.

Many of the limitations and inadequacies in the chosen applications may have been identified earlier. For example, at the time the Master Agreement was signed, four Ontario courts were already using earlier versions of an application that was later selected. However, these earlier versions were not assessed as to their effectiveness in the courts where they were used.

While project management advised us that these earlier versions of the application were known to be inadequate for Ontario courts, in our view this further supports the need to assess the strengths and weaknesses of all applications, including areas that courts management would consider require improvement.

Even though risks associated with the above factors were identified in early submissions regarding the Project made to the Management Board of Cabinet between 1996 and 2000, aggressive timelines and favourable cost scenarios were nonetheless used in the business case. In our view, Common Purpose Procurement guidelines would be improved by requiring that the business case be more realistic and based on validated information. Where significant assumptions and risks are involved, best- and worst-case scenarios would need to be prepared.

Recommendation

To improve controls over timelines and associated costs for this and future Common Purpose Procurement projects, the Ministries should work with the Management Board of Cabinet to revise Common Purpose Procurement guidelines to require that:

- **reliable information that is validated at the earliest opportunity be used in the preparation of the business case; and**
- **where significant assumptions must be made, multiple business-case scenarios be prepared to help ensure that the financial risks relating to each of the various scenarios are clearly presented.**

Ministries' Response

The Ministries have undertaken to develop processes to continuously improve project planning and monitoring of timelines and associated costs. For example, the Ministries have expanded the existing governance structure, adding new controls that improve project accountability and provide for more effective decision-making.

six vendors that were competitively selected. These vendors were required to develop or customize their existing applications to meet project functional requirements and to ensure compatibility of the new systems; at the same time, EDS began developing new applications that would enable future integration of the various individual systems.

All six applications chosen required longer than the six months allotted for the modifications needed to meet Ontario's requirements and for integration with other systems. In the case of courts systems in particular, the changes needed were extensive and not easily effected. The customization problems were intensified by the fact that the application vendors were generally smaller companies in niche markets with limited resources to do the work required within the allotted time frames.

Many of the limitations and inadequacies in the chosen applications may have been identified earlier. For example, at the time the Master Agreement was signed, four Ontario courts were already using earlier versions of an application that was later selected. However, these earlier versions were not assessed as to their effectiveness in the courts where they were used.

While project management advised us that these earlier versions of the application were known to be inadequate for Ontario courts, in our view this further supports the need to assess the strengths and weaknesses of all applications, including areas that courts management would consider require improvement.

Even though risks associated with the above factors were identified in early submissions regarding the Project made to the Management Board of Cabinet between 1996 and 2000, aggressive timelines and favourable cost scenarios were nonetheless used in the business case. In our view, Common Purpose Procurement guidelines would be improved by requiring that the business case be more realistic and based on validated information. Where significant assumptions and risks are involved, best- and worst-case scenarios would need to be prepared.

Recommendation

To improve controls over timelines and associated costs for this and future Common Purpose Procurement projects, the Ministries should work with the Management Board of Cabinet to revise Common Purpose Procurement guidelines to require that:

- **reliable information that is validated at the earliest opportunity be used in the preparation of the business case; and**
- **where significant assumptions must be made, multiple business-case scenarios be prepared to help ensure that the financial risks relating to each of the various scenarios are clearly presented.**

Ministries' Response

The Ministries have undertaken to develop processes to continuously improve project planning and monitoring of timelines and associated costs. For example, the Ministries have expanded the existing governance structure, adding new controls that improve project accountability and provide for more effective decision-making.

The Ministries understand that the Management Board Secretariat is reviewing the Common Purpose Procurement guidelines, seeking to identify, develop, and implement additional guidelines that may be required to assure the effective planning and management of future Common Purpose Procurement initiatives. The Ministries look forward to sharing their experience from the Integrated Justice Project with the Management Board Secretariat as part of this review. The Auditor's recommendation, that proposals include multiple business-case scenarios to help ensure that the financial risks relating to each of the various scenarios is clearly presented, will be considered as part of this review.

PROJECT BENEFITS

The Phase 1 business case was prepared with the input of staff from the Ministries, consortium members, and stakeholders. This business case became the basis for the March 31, 1998 revised Master Agreement and was used to obtain approval from the Management Board of Cabinet to proceed based on the financial merits of the Project.

The following table shows how the benefits that were anticipated at the start of the Project compare with those currently expected.

Original and Current Project Benefits by Area

Benefit Area	Cost Savings ($ millions)	New Revenues ($ millions)	Total ($ millions)
Police			
March 31, 1998	12.5	22.0	34.5
March 31, 2001	14.3	0	14.3
Change	*+14%*	*–100%*	*–59%*
Crown Attorneys			
March 31, 1998	6.4	3.9	10.3
March 31, 2001	5.5	0	5.5
Change	*–14%*	*–100%*	*–47%*
Courts			
March 31, 1998	84.4	139.8	224.2
March 31, 2001	51.2	121.2	172.3
Change	*–39%*	*–13%*	*–23%*
Corrections			
March 31, 1998	46.9	0	46.9
March 31, 2001	39.4	0	39.4
Change	*–16%*	*0*	*–16%*
Other			
March 31, 1998	9.2	1.1	10.3
March 31, 2001	6.5	0	6.5
Change	*–29%*	*–100%*	*–37%*
TOTAL			
March 31, 1998	159.4	166.8	326.2
March 31, 2001	116.9	121.2	238.0
Change	*–27%*	*–27%*	*–27%*

Source of data: Integrated Justice Project, Project Management Office

We noted that specific details on cost savings and new revenues were maintained by the Project Management Office but not included in the business case. In our view, the Management Board of Cabinet should have been provided with more detailed information on project benefits in the business case in order for it to be as informed as possible in making its decision to approve the Project and in monitoring project progress.

Estimation of Benefits

A large portion of the approximately $88 million reduction in total anticipated benefits between 1998 and 2001, as outlined in the previous table, was attributable to delays in introducing new systems, particularly in the case of courts. Since the benefits period was to end in August 2005, project delays would result in a shorter contractual period for achieving benefits.

The Ministries understand that the Management Board Secretariat is reviewing the Common Purpose Procurement guidelines, seeking to identify, develop, and implement additional guidelines that may be required to ensure the effective planning and management of future Common Purpose Procurement initiatives. The Ministries look forward to sharing their experience from the Integrated Justice Project with the Management Board Secretariat as part of this review. The Auditor's recommendation, that proposals include multiple business-case scenarios to help ensure that the financial risks relating to each of the various scenarios is clearly presented, will be considered as part of this review.

PROJECT BENEFITS

The Phase 1 business case was prepared with the input of staff from the Ministries, consortium members, and stakeholders. This business case became the basis for the March 31, 1998 revised Master Agreement and was used to obtain approval from the Management Board of Cabinet to proceed based on the financial merits of the Project.

The following table shows how the benefits that were anticipated at the start of the Project compare with those currently expected.

Original and Current Project Benefits by Area

Benefit Area	Cost Savings ($ millions)	New Revenues ($ millions)	Total ($ millions)
March 31, 1998	12.5	22.0	34.5
March 31, 2001	14.3	0	14.3
Change	*+14%*	*–100%*	*–59%*
March 31, 1998	6.4	3.9	10.3
March 31, 2001	5.5	0	5.5
Change	*–14%*	*–100%*	*–47%*
March 31, 1998	84.4	139.8	224.2
March 31, 2001	51.2	121.2	172.3
Change	*–39%*	*–13%*	*–23%*
March 31, 1998	46.9	0	46.9
March 31, 2001	39.4	0	39.4
Change	*–16%*	*0*	*–16%*
March 31, 1998	9.2	1.1	10.3
March 31, 2001	6.5	0	6.5
Change	*–29%*	*–100%*	*–37%*
March 31, 1998	159.4	166.8	326.2
March 31, 2001	116.9	121.2	238.0
Change	*–27%*	*–27%*	*–27%*

Source of data:* *Integrated Justice Project, Project Management Office

We noted that specific details on cost savings and new revenues were maintained by the Project Management Office but not included in the business case. In our view, the Management Board of Cabinet should have been provided with more detailed information on project benefits in the business case in order for it to be as informed as possible in making its decision to approve the Project and in monitoring project progress.

Estimation of Benefits

A large portion of the approximately $88 million reduction in total anticipated benefits between 1998 and 2001, as outlined in the previous table, was attributable to delays in introducing new systems, particularly in the case of courts. Since the benefits period was to end in August 2005, project delays would result in a shorter contractual period for achieving benefits.

Not all of the reduction in total benefits was due to delays, however. We had two specific concerns after reviewing information on cost savings and new revenues maintained by the Project Management Office. First, benefits totalling over $30 million could have been better researched and were subsequently removed from the business case. For example:

- The original $22 million in new revenues for police included $10.5 million to be collected from the municipal police services community as payment for improved information on individuals and cases. However, after further discussion it was agreed that, since the municipal police community itself would be contributing such information to the system, it should not be paying for the sharing of it. The remaining $11.5 million constituted cost savings that were incorrectly recorded as revenues.
- Cost savings of $5.8 million were expected in the police system as a result of eliminating the need for staff to schedule and manage officers' court appearances. However, no permanent staff were actually dedicated to this activity—it was carried out by officers assuming light duties or on short-term assignments. In addition, $1.1 million in savings from reduced overtime payments to officers attending court was removed when it was determined that additional officers would be needed to replace officers that attend court during regular hours.
- Over $15 million was removed from court cost savings when more conservative staff-reduction targets were used for the business case prepared after November 1999.

Our second concern was that benefits in both the current and the past business case were overstated in that they were not directly attributable to the Project. The Master Agreement stipulated that only those cost savings and new revenues that were directly enabled by the Project could be considered benefits. The overstatement in the most recent business case amounted to approximately $57 million as follows:

- The costs savings over the course of the benefits period resulting from the elimination of existing systems at police and corrections were estimated to be almost $20 million. However, this figure did not take into consideration the operating costs of the new replacement systems, which were expected to be over $30 million during this period. In our view, only the net costs of $10 million should have been identified in the business case, rather than savings of $20 million.
- Project schedules indicated that implementation of new court systems would not begin until late 2001 and would not be completed until after mid-2003. However, from April 2000 onwards, the business case indicated new court revenues of $27 million for the years 2000 to 2002 resulting from statutory court fee increases. We noted that these revenues had been attributed to the Project in anticipation of the improvements to courts once new systems were implemented. However, until new systems can be shown to increase efficiencies and service levels, the Project should not be entitled to claim any such revenues as a benefit.

Acceptance of Benefits

The Project Management Office required that documentation on cost savings and new revenues include a Benefits Enabling and Acceptance Document (BEAD) for each benefit. Each BEAD was to state the expected annual savings or revenues of the benefit and indicate how these were calculated in order to provide the basis for the transfer of the benefit, when realized, from the Ministries' budgets to the Project's benefits pool. Each BEAD required the approval and acceptance of the two directors of the Project Management Office as well as senior management at the Ministries.

Between December 1999 and June 2000, BEADs were finalized for police, the Crown attorney, and corrections. However, as of March 31, 2001, senior court management at the Ministry of the Attorney General had not approved the BEADs for expected courts benefits of $172.3 million. Since courts benefits were to represent over 70% of total project benefits, this delay in formalizing the BEADs exposed the Project to a risk that certain benefits would not be approved by courts management and/or would not be realized.

Recommendation

To help ensure that benefits identified in the business case for the Integrated Justice Project and any future projects are objectively and realistically presented, the Ministries should:

- **include in the business case specific details on cost savings and new revenues; and**
- **ensure that only well-researched and project-specific cost savings and new revenues are stated in the business case.**

Ministries' Response

The Ministries agree with the Provincial Auditor that, at each stage of the Common Purpose Procurement process, the financial data presented must be based on the best available information. As the Project progresses, the Ministries are committed to developing more accurate and timely estimates of costs and benefits and to improving planning and estimating processes. This constantly updated information will be supplied to the Management Board of Cabinet in the Ministries' annual report-backs on the Project.

In the future, the Ministries will impose appropriate controls over business-case development to ensure the accuracy and validity of information.

In renegotiating the Master Agreement with EDS, documents describing project benefits will be reviewed, with the intention of having them updated and appropriately approved. By approving these benefits, the Ministries and EDS will demonstrate their common commitment to achieving them.

The issues raised by the Auditor regarding business cases for future Common Purpose Procurement projects will be examined as part of the Common Purpose Procurement review that the Management Board Secretariat is undertaking; the Ministries will participate in this review.

CONTRACTUAL ARRANGEMENTS

According to Common Purpose Procurement guidelines, the investment costs of a project and the remuneration from it are to be divided up between a ministry and its private-sector partner

acceptance of the two directors of the Project Management Office as well as senior management at the Ministries.

Between December 1999 and June 2000, BEADs were finalized for police, the Crown attorney, and corrections. However, as of March 31, 2001, senior court management at the Ministry of the Attorney General had not approved the BEADs for expected courts benefits of $172.3 million. Since courts benefits were to represent over 70% of total project benefits, this delay in formalizing the BEADs exposed the Project to a risk that certain benefits would not be approved by courts management and/or would not be realized.

Recommendation

To help ensure that benefits identified in the business case for the Integrated Justice Project and any future projects are objectively and realistically presented, the Ministries should:

- **include in the business case specific details on cost savings and new revenues; and**
- **ensure that only well-researched and project-specific cost savings and new revenues are stated in the business case.**

Ministries' Response

The Ministries agree with the Provincial Auditor that, at each stage of the Common Purpose Procurement process, the financial data presented must be based on the best available information. As the Project progresses, the Ministries are committed to developing more accurate and timely estimates of costs and benefits and to improving planning and estimating processes. This constantly updated information will be supplied to the Management Board of Cabinet in the Ministries' annual report-backs on the Project.

In the future, the Ministries will impose appropriate controls over business-case development to ensure the accuracy and validity of information.

In renegotiating the Master Agreement with EDS, documents describing project benefits will be reviewed, with the intention of having them updated and appropriately approved. By approving these benefits, the Ministries and EDS will demonstrate their common commitment to achieving them.

The issues raised by the Auditor regarding business cases for future Common Purpose Procurement projects will be examined as part of the Common Purpose Procurement review that the Management Board Secretariat is undertaking; the Ministries will participate in this review.

CONTRACTUAL ARRANGEMENTS

According to Common Purpose Procurement guidelines, the investment costs of a project and the remuneration from it are to be divided up between a ministry and its private-sector partner based on the allocation of risks and attribution of benefits. The project's financial arrangements should also recognize the private-sector parter's expectation that it be able to recover its investment and make a profit.

The September 1997 business case, which was used as the basis for establishing the terms of the Master Agreement, called for total project costs of $137 million during a specified work term and benefits totalling $343 million by the end of a specified benefits period. The work term was to end when all new systems were completed, which was not to be later than five years after the agreement date of September 1997. The benefits period was to begin at the end of the work term and continue for a period of three years.

Negotiated Payment Cap

Consortium members and the government were to be remunerated in proportion to their original investment until a break-even point was reached. After that point, EDS could receive incentive payments ranging from 10% to 25% of the additional benefits until the end of the benefits period. However, the Ministries negotiated a requirement that the total payments to EDS were to be capped at $220 million, excluding taxes. This payment cap was to function as a ceiling should project costs increase, as well as a means to limit payments to EDS should benefits be substantially more than anticipated. Remuneration to EDS was to be payable only when project benefits were realized.

We noted that, by negotiating the payment cap and holding back vendor remuneration to the time when benefits become realized, project management took an important step in mitigating the risk of the Ministries having to pay for uncontrolled large increases in both project costs and benefit payments to EDS. By the end of our audit, EDS had been able to recover a total of only $2 million of its incurred investment costs.

Incentives to Vendors

According to the September 1997 business case and the agreement, if the Project had progressed as planned, remuneration to EDS and its consortium members would have been as follows:

Expected Consortium Remuneration as of 1997

Expected Remuneration as of September 1997	($ millions)
recovery of investment	124
interest	1
incentives	51

Source of data: Integrated Justice Project, Project Management Office

The $51 million in incentives, if paid, would have represented a payment of over 40% on EDS's expected investment. The incentives were in addition to other compensation and profit-margin allowances provided for in the Master Agreement to EDS and included in the investment costs, such as premium rates on staff costs (discussed in the next section), interest on investment until investment was recovered, and a 7% markup on purchases. Since total payments to EDS were capped at a maximum of $220 million and provided that sufficient increased savings to the Project were achieved, EDS could have potentially received an additional $44 million in incentives. Total incentives of $95 million would have represented 75% of EDS's expected investment costs.

Incentives are commonly used to reward good performance; however, in traditional procurement processes, incentive payments are much less than those offered in the Project. We were informed that, without large incentives, private-sector companies would be unlikely to accept projects having the risk associated with Common Purpose Procurement. We recognize further that incentive and other remuneration arrangements were reached only after extensive negotiations between the government and its private-sector partner. However, if offering vendors large incentives as a reward for assuming risk continues as normal Common Purpose Procurement practice, there is a risk that Common Purpose Procurement projects will necessarily be more expensive than projects using other procurement approaches. Minimizing the risk associated with Common Purpose Procurement, through, for example, more research and better planning up front, may help reduce the need for large incentives.

Recommendation

To help ensure that future remuneration to vendors participating in Common Purpose Procurement projects is reasonable and fair, the Ministries should work with the Management Board of Cabinet to develop appropriate guidelines for the contract negotiation process. These guidelines should require that ministries examine ways of reducing the need for large incentives.

Ministries' Response

The Ministries agree with the Auditor that incentives offered to secure the private sector's participation in Common Purpose Procurement projects must be reasonable and fair. The level of incentives offered should accurately reflect the balance of financial risks between the partners.

The Ministries will assist the Management Board Secretariat in its review of Common Purpose Procurement guidelines. The issues raised by the Auditor regarding contract negotiation guidelines for future Common Purpose Procurement projects will be examined as part of this review.

Chargeable Rates

The Master Agreement between the Ministries and EDS stipulated the manner in which chargeable rates were to be calculated by each party and charged to the Project's investment pool. Prior to any rates being charged by either party, approvals had to be obtained from both project directors to ensure that rates were reasonable and in accordance with pre-authorized tasks. This approval was particularly important given that staffing costs made up the largest component of the investment pool. In addition, since benefits were to be allocated according to based on the allocation of risks and attribution of benefits. The project's financial arrangements should also recognize the private-sector parter's expectation that it be able to recover its investment and make a profit.

The September 1997 business case, which was used as the basis for establishing the terms of the Master Agreement, called for total project costs of $137 million during a specified work term and benefits totalling $343 million by the end of a specified benefits period. The work term was to end when all new systems were completed, which was not to be later than five years after the agreement date of September 1997. The benefits period was to begin at the end of the work term and continue for a period of three years.

Negotiated Payment Cap

Consortium members and the government were to be remunerated in proportion to their original investment until a break-even point was reached. After that point, EDS could receive incentive payments ranging from 10% to 25% of the additional benefits until the end of the benefits period. However, the Ministries negotiated a requirement that the total payments to EDS were to be capped at $220 million, excluding taxes. This payment cap was to function as a ceiling should project costs increase, as well as a means to limit payments to EDS should benefits be substantially more than anticipated. Remuneration to EDS was to be payable only when project benefits were realized.

We noted that, by negotiating the payment cap and holding back vendor remuneration to the time when benefits become realized, project management took an important step in mitigating the risk of the Ministries having to pay for uncontrolled large increases in both project costs and benefit payments to EDS. By the end of our audit, EDS had been able to recover a total of only $2 million of its incurred investment costs.

Incentives to Vendors

According to the September 1997 business case and the agreement, if the Project had progressed as planned, remuneration to EDS and its consortium members would have been as follows:

Expected Consortium Remuneration as of 1997

Expected Remuneration as of September 1997	($ millions)
recovery of investment	124
interest	1
incentives	51
Total	176

Source of data: Integrated Justice Project, Project Management Office

The $51 million in incentives, if paid, would have represented a payment of over 40% on EDS's expected investment. The incentives were in addition to other compensation and profit-margin allowances provided for in the Master Agreement to EDS and included in the investment costs, such as premium rates on staff costs (discussed in the next section), interest on investment until investment was recovered, and a 7% markup on purchases. Since total payments to EDS were capped at a maximum of $220 million and provided that sufficient increased savings to the Project were achieved, EDS could have potentially received an additional $44 million in incentives. Total incentives of $95 million would have represented 75% of EDS's expected investment costs.

Incentives are commonly used to reward good performance; however, in traditional procurement processes, incentive payments are much less than those offered in the Project. We were informed that, without large incentives, private-sector companies would be unlikely to accept projects having the risk associated with Common Purpose Procurement. We recognize further that incentive and other remuneration arrangements were reached only after extensive negotiations between the government and its private-sector partner. However, if offering vendors large incentives as a reward for assuming risk continues as normal Common Purpose Procurement practice, there is a risk that Common Purpose Procurement projects will necessarily be more expensive than projects using other procurement approaches. Minimizing the risk associated with Common Purpose Procurement, through, for example, more research and better planning up front, may help reduce the need for large incentives.

Recommendation

To help ensure that future remuneration to vendors participating in Common Purpose Procurement projects is reasonable and fair, the Ministries should work with the Management Board of Cabinet to develop appropriate guidelines for the contract negotiation process. These guidelines should require that ministries examine ways of reducing the need for large incentives.

Ministries' Response

The Ministries agree with the Auditor that incentives offered to secure the private sector's participation in Common Purpose Procurement projects must be reasonable and fair. The level of incentives offered should accurately reflect the balance of financial risks between the partners.

The Ministries will assist the Management Board Secretariat in its review of Common Purpose Procurement guidelines. The issues raised by the Auditor regarding contract negotiation guidelines for future Common Purpose Procurement projects will be examined as part of this review.

Chargeable Rates

The Master Agreement between the Ministries and EDS stipulated the manner in which chargeable rates were to be calculated by each party and charged to the Project's investment pool. Prior to any rates being charged by either party, approvals had to be obtained from both project directors to ensure that rates were reasonable and in accordance with pre-authorized tasks. This approval was particularly important given that staffing costs made up the largest component of the investment pool. In addition, since benefits were to be allocated according to the proportion of investments contributed by each party, high rates charged by one party would result in that party obtaining a disproportionately higher share of benefits.

As of March 31, 2001, staff costs charged to the Project by the consortium and the Ministries were approximately $77 million and $19 million respectively.

CONSORTIUM STAFF

The Agreement required EDS to certify that rates charged for consortium staff were equal to or better than those charged to other customers for "similar work of similar volume, quality, complexity, and circumstances." This requirement applied to all consortium members. However, the Agreement did not define what constituted "similar work of similar volume, quality, complexity, and circumstances," nor did it establish any benchmarks allowing comparison of rates. The Agreement also allowed an annual rate increase provided the increase did not exceed the industry average.

Although EDS and its consortium members had not increased staff rates charged to the Project since 1998, these rates had been at a premium compared to the best rates available to Ontario government ministries. Specifically, vendor-of-record rates were available to all ministries for any projects on a fee-for-services basis and were obtained by the Management Board Secretariat through a competitive process. EDS's vendor-of-record rates were approximately 30% lower than the rates EDS had charged to the Project. Projecting from the data that was current at the time of our audit, we estimated that the rate premium would ultimately add an extra $20 million to $25 million to total project costs.

We requested that project management provide us with records from EDS that would verify that the rates charged to the Project were in accordance with the terms of the Agreement. However, we were advised that the Agreement required only that EDS provide its own written certification of rates, and therefore no independent verification was possible. Audit provisions in the Agreement limited access to records to only those maintained by the Project Management Office.

Recommendation

To ensure that vendor rates charged to the Integrated Justice Project are comparable to the rates available to other ministries of the Ontario government and comply with the contractual arrangements, the Ministries should renegotiate the vendor's rates.

In future Common Purpose Procurement projects, to help ensure that the rates being charged can be substantiated, adequate provisions for their verification should be included in any contractual arrangements.

Ministries' Response

The Ministries appreciate the Auditor's recommendations. The issue of vendor rates is one of several being discussed during renegotiations of the Master Agreement with EDS. Furthermore, the Ministries will work with the Management Board Secretariat in its review of the Common Purpose

Procurement guidelines. The issues raised by the Auditor regarding future Common Purpose Procurement projects will be examined as part of this review.

MINISTRY STAFF

The guidelines for Common Purpose Procurement state that:

> In order to obtain the best value possible, when negotiating payment options it is important to recognize the need to establish equitable rates for similar work completed by ministry and private sector staff. At the same time, it should be noted that the private sector staff resources utilized in a Common Purpose Procurement project will likely be bringing extensive experience and expertise that will not be found in the Ontario Public Service, and will therefore require appropriate remuneration.

According to the Master Agreement, the Ministries' staff rates for each classification were to be calculated as the sum of: the maximum salary for the classification; employee benefits ranging from 11% to 38% depending on the classification; 20% overhead; and 20% profit.

Even with the markup included in the Ministries' staff rates, we noted that the rates charged to the Project for EDS and its consortium members' staff time were approximately three times higher than the rates for ministries staff for comparable work. For example, the Agreement required EDS to assume responsibility for the operations and maintenance of existing police, courts, and corrections information systems effective October 1, 1998 and continuing until new systems were to be in use. About seven of the Ministries' staff were being used to maintain the systems prior to the transfer to EDS. The rates chargeable by the Ministries under the Agreement for these staff members would have been $340 per day. However, EDS was allowed to charge $1,200 per day for these same staff, whom it hired when it took over this responsibility. In our view, such instances of a large rate differential between the Ministries' and the consortium's staff rates should be justified and documented.

In addition to our concern with the rate differential, we determined that the Project Management Office incorrectly calculated the per diem rates of the Ministries' staff. As a result, the rates charged were about 10% below what they should have been. Unless corrective action is taken, over the life of the Project the Ministries will have undercharged their staffing costs by a total of approximately $3 million, resulting in a proportionate decrease in the Ministries' share of eventual project benefits. However, the Project Management Office advised us that, since the incorrect rates were agreed to with EDS, it can no longer charge the almost $2 million of Ministries' staff costs that would have been chargeable had the correct per diem rates been used.

Furthermore, chargeable rates for the Ministries' staff had also not been adjusted to reflect annual salary increases, and, in some cases, promotions to higher management positions, since April 1998.

Recommendation

To help ensure that the savings achieved in future Common Purpose Procurement projects are fairly distributed, the Ministries should ensure that rates set for their staff are comparable to rates used by vendors whenever

the proportion of investments contributed by each party, high rates charged by one party would result in that party obtaining a disproportionately higher share of benefits.

As of March 31, 2001, staff costs charged to the Project by the consortium and the Ministries were approximately $77 million and $19 million respectively.

CONSORTIUM STAFF

The Agreement required EDS to certify that rates charged for consortium staff were equal to or better than those charged to other customers for "similar work of similar volume, quality, complexity, and circumstances." This requirement applied to all consortium members. However, the Agreement did not define what constituted "similar work of similar volume, quality, complexity, and circumstances," nor did it establish any benchmarks allowing comparison of rates. The Agreement also allowed an annual rate increase provided the increase did not exceed the industry average.

Although EDS and its consortium members had not increased staff rates charged to the Project since 1998, these rates had been at a premium compared to the best rates available to Ontario government ministries. Specifically, vendor-of-record rates were available to all ministries for any projects on a fee-for-services basis and were obtained by the Management Board Secretariat through a competitive process. EDS's vendor-of-record rates were approximately 30% lower than the rates EDS had charged to the Project. Projecting from the data that was current at the time of our audit, we estimated that the rate premium would ultimately add an extra $20 million to $25 million to total project costs.

We requested that project management provide us with records from EDS that would verify that the rates charged to the Project were in accordance with the terms of the Agreement. However, we were advised that the Agreement required only that EDS provide its own written certification of rates, and therefore no independent verification was possible. Audit provisions in the Agreement limited access to records to only those maintained by the Project Management Office.

Recommendation

To ensure that vendor rates charged to the Integrated Justice Project are comparable to the rates available to other ministries of the Ontario government and comply with the contractual arrangements, the Ministries should renegotiate the vendor's rates.

In future Common Purpose Procurement projects, to help ensure that the rates being charged can be substantiated, adequate provisions for their verification should be included in any contractual arrangements.

Ministries' Response

The Ministries appreciate the Auditor's recommendations. The issue of vendor rates is one of several being discussed during renegotiations of the Master Agreement with EDS. Furthermore, the Ministries will work with the Management Board Secretariat in its review of the Common Purpose

Procurement guidelines. The issues raised by the Auditor regarding future Common Purpose Procurement projects will be examined as part of this review.

MINISTRY STAFF

The guidelines for Common Purpose Procurement state that:

> In order to obtain the best value possible, when negotiating payment options it is important to recognize the need to establish equitable rates for similar work completed by ministry and private sector staff. At the same time, it should be noted that the private sector staff resources utilized in a Common Purpose Procurement project will likely be bringing extensive experience and expertise that will not be found in the Ontario Public Service, and will therefore require appropriate remuneration.

According to the Master Agreement, the Ministries' staff rates for each classification were to be calculated as the sum of: the maximum salary for the classification; employee benefits ranging from 11% to 38% depending on the classification; 20% overhead; and 20% profit.

Even with the markup included in the Ministries' staff rates, we noted that the rates charged to the Project for EDS and its consortium members' staff time were approximately three times higher than the rates for ministries staff for comparable work. For example, the Agreement required EDS to assume responsibility for the operations and maintenance of existing police, courts, and corrections information systems effective October 1, 1998 and continuing until new systems were to be in use. About seven of the Ministries' staff were being used to maintain the systems prior to the transfer to EDS. The rates chargeable by the Ministries under the Agreement for these staff members would have been $340 per day. However, EDS was allowed to charge $1,200 per day for these same staff, whom it hired when it took over this responsibility. In our view, such instances of a large rate differential between the Ministries' and the consortium's staff rates should be justified and documented.

In addition to our concern with the rate differential, we determined that the Project Management Office incorrectly calculated the per diem rates of the Ministries' staff. As a result, the rates charged were about 10% below what they should have been. Unless corrective action is taken, over the life of the Project the Ministries will have undercharged their staffing costs by a total of approximately $3 million, resulting in a proportionate decrease in the Ministries' share of eventual project benefits. However, the Project Management Office advised us that, since the incorrect rates were agreed to with EDS, it can no longer charge the almost $2 million of Ministries' staff costs that would have been chargeable had the correct per diem rates been used.

Furthermore, chargeable rates for the Ministries' staff had also not been adjusted to reflect annual salary increases, and, in some cases, promotions to higher management positions, since April 1998.

Recommendation

To help ensure that the savings achieved in future Common Purpose Procurement projects are fairly distributed, the Ministries should ensure that rates set for their staff are comparable to rates used by vendors whenever

possible. When rates are not comparable, the Ministries should document the justification for the rate differential.

The Ministries should also take corrective action to ensure that the future staffing costs they charge to the Integrated Justice Project are accurately calculated.

Ministries' Response

The Ministries will consider the Auditor's concerns at the next opportunity for updating rates. Any rate differentials will be adequately explained.

The Ministries will work with the Management Board Secretariat in its review of Common Purpose Procurement guidelines, and the issues raised by the Auditor regarding future Common Purpose Procurement projects will be examined as part of this review.

PROJECT ADMINISTRATION

We noted that review teams of the consortium and the Ministries had conducted periodic assessments of the Project and had recommended improvements to service-delivery processes. However, notwithstanding the co-operative relationship between the Ministries and the consortium, we noted that further improvements were needed to ensure that the Project would be administered with satisfactory internal controls and due regard for economy.

Internal Controls

The Project Management Office is responsible for day-to-day internal controls over administrative areas, including staffing, moveable assets, accommodations, and employee expenses. We found the following:

- In several cases, supporting documentation and/or approvals for such items as business-related meals, employee and consortium expenses, and equipment purchases were inadequate or lacking. There were also instances of duplicate charges to the investment pool by EDS.
- For the 20-month period from June 1999 to January 2001, rent paid to EDS by the Ministry of the Attorney General for project management office accommodations was in excess of the agreed-upon amount by approximately $220,000.
- Inventory controls over new computer equipment purchased or leased for the Project since 1997 were weak. For example, equipment inventory lists were inaccurate and staff were not formally assigned responsibility for their computers.

As a result of our audit work, the Project Management Office eliminated approximately $95,000 in duplicate charges from the investment pool and recovered approximately $220,000 from EDS.

Consulting Services

Adequate procedures to ensure the economic acquisition and proper management of consulting services were not in place. For example:

- The former Ministry of the Solicitor General and Correctional Services acquired and paid for a consultant to provide information-technology architecture services. The consultant's contracted work period was from September 1997 to March 1998 and remuneration was capped at a maximum ceiling of $120,000. We noted that three one-year contracts, with the same terms and conditions as the first contract and valued at up to $240,000, followed on the first contract without using a competitive selection process.
- The same ministry hired a consulting firm to assist in the selection of the Common Purpose Procurement vendor. The firm's contracted work period began in September 1996 and was to extend for up to six months, at an agreed-upon price of $250,000. Two amendments were subsequently made to the original contract. A new ceiling price of $511,000 was established without documentation to explain the need for an increase over the originally agreed-upon price. The final fee paid to the firm was $584,000, with no further amendment to the contract and no documented explanation for the increase above the revised ceiling price.
- The Ministry of the Attorney General hired a contractor to provide technical and programming support services for its Case Management and Electronic Document Filing systems for courts. The work period was from March 1998 to March 1999 and a ceiling price of $320,000 was established. No documentation was available to demonstrate whether this contractor, who had already done project-related work prior to this contract, was competitively selected. In addition, the contractor was ultimately paid $581,000, with no amendment to the contract and no documented explanation for the amount added to the $320,000 ceiling price.

  We also noted that the agreement allowed the contractor to substitute staff assigned to the Project with staff with equivalent qualifications, provided it had obtained the prior written consent of the Ministry of the Attorney General. Invoices from the contractor showed that staff were indeed substituted and/or added. However, there was no evidence on record to indicate that the staff's qualifications, suitability, and charged rates were acceptable to and accepted by the Ministry.

Recommendation

To ensure that in future the Integrated Justice Project is administered with adequate internal controls and due regard for economy, the Ministries should:

- **ensure that charges to the investment pool are adequately verified with supporting documents in accordance with contract terms and approvals and take any additional measures considered necessary to eliminate duplicate charges and excessive payments;**
- **establish proper asset controls over its inventory of computer equipment; and**

possible. When rates are not comparable, the Ministries should document the justification for the rate differential.

The Ministries should also take corrective action to ensure that the future staffing costs they charge to the Integrated Justice Project are accurately calculated.

Ministries' Response

The Ministries will consider the Auditor's concerns at the next opportunity for updating rates. Any rate differentials will be adequately explained.

The Ministries will work with the Management Board Secretariat in its review of Common Purpose Procurement guidelines, and the issues raised by the Auditor regarding future Common Purpose Procurement projects will be examined as part of this review.

PROJECT ADMINISTRATION

We noted that review teams of the consortium and the Ministries had conducted periodic assessments of the Project and had recommended improvements to service-delivery processes. However, notwithstanding the co-operative relationship between the Ministries and the consortium, we noted that further improvements were needed to ensure that the Project would be administered with satisfactory internal controls and due regard for economy.

Internal Controls

The Project Management Office is responsible for day-to-day internal controls over administrative areas, including staffing, moveable assets, accommodations, and employee expenses. We found the following:

- In several cases, supporting documentation and/or approvals for such items as business-related meals, employee and consortium expenses, and equipment purchases were inadequate or lacking. There were also instances of duplicate charges to the investment pool by EDS.
- For the 20-month period from June 1999 to January 2001, rent paid to EDS by the Ministry of the Attorney General for project management office accommodations was in excess of the agreed-upon amount by approximately $220,000.
- Inventory controls over new computer equipment purchased or leased for the Project since 1997 were weak. For example, equipment inventory lists were inaccurate and staff were not formally assigned responsibility for their computers.

As a result of our audit work, the Project Management Office eliminated approximately $95,000 in duplicate charges from the investment pool and recovered approximately $220,000 from EDS.

Consulting Services

Adequate procedures to ensure the economic acquisition and proper management of consulting services were not in place. For example:

- The former Ministry of the Solicitor General and Correctional Services acquired and paid for a consultant to provide information-technology architecture services. The consultant's contracted work period was from September 1997 to March 1998 and remuneration was capped at a maximum ceiling of $120,000. We noted that three one-year contracts, with the same terms and conditions as the first contract and valued at up to $240,000, followed on the first contract without using a competitive selection process.
- The same ministry hired a consulting firm to assist in the selection of the Common Purpose Procurement vendor. The firm's contracted work period began in September 1996 and was to extend for up to six months, at an agreed-upon price of $250,000. Two amendments were subsequently made to the original contract. A new ceiling price of $511,000 was established without documentation to explain the need for an increase over the originally agreed-upon price. The final fee paid to the firm was $584,000, with no further amendment to the contract and no documented explanation for the increase above the revised ceiling price.
- The Ministry of the Attorney General hired a contractor to provide technical and programming support services for its Case Management and Electronic Document Filing systems for courts. The work period was from March 1998 to March 1999 and a ceiling price of $320,000 was established. No documentation was available to demonstrate whether this contractor, who had already done project-related work prior to this contract, was competitively selected. In addition, the contractor was ultimately paid $581,000, with no amendment to the contract and no documented explanation for the amount added to the $320,000 ceiling price.

  We also noted that the agreement allowed the contractor to substitute staff assigned to the Project with staff with equivalent qualifications, provided it had obtained the prior written consent of the Ministry of the Attorney General. Invoices from the contractor showed that staff were indeed substituted and/or added. However, there was no evidence on record to indicate that the staff's qualifications, suitability, and charged rates were acceptable to and accepted by the Ministry.

Recommendation

To ensure that in future the Integrated Justice Project is administered with adequate internal controls and due regard for economy, the Ministries should:

- **ensure that charges to the investment pool are adequately verified with supporting documents in accordance with contract terms and approvals and take any additional measures considered necessary to eliminate duplicate charges and excessive payments;**
- **establish proper asset controls over its inventory of computer equipment; and**

- **ensure that consulting and related services can be demonstrated to have been acquired competitively and that payments are made in accordance with contractual terms and conditions.**

Ministries' Response

The Ministries have acted on the Auditor's concerns, recovering duplicate and other inappropriate charges and implementing additional controls to ensure that charges are properly documented, expense claims are accurately processed, and controls over computer hardware and software are in place.

The Ministries also conducted their own review of project administration, including that of consulting contracts, to ensure that no other discrepancies exist and that in future the Ministries' and the Management Board Secretariat's guidelines governing the acquisition of consulting and related services are followed.

SYSTEM SECURITY

At the completion of our audit, the new systems were primarily in the development stage and were not operational. Only the new Computer-aided Dispatch (CAD) system and the Records Management System (RMS) for police had begun to be implemented. CAD tracks all emergency calls and the assignments of officers, while RMS maintains information on suspects, victims, witnesses, and the accused. These two systems replaced the existing Ontario Municipal and Provincial Police Automation Co-operative (OMPPAC) system used by the Ontario Provincial Police (OPP) and approximately 40 municipal police forces. In the period from September 2000 to March 2001, four of the OPP's 11 communications centres began using CAD, and over 60% of officers were trained on and began using RMS. On March 7, 2001, the first municipal police service began using the two systems.

The new police systems were an initial release, and the Project Management Office was planning to implement further functional enhancements and improvements to these programs in future. Since, at the same time, significant efforts would be made to roll out both the remaining new systems and the added-functionality releases of programs now in initial release, we concluded that a complete security audit would not be practical at this time. However, we reviewed security measures and procedures in place for the new systems and had the following serious concerns:

- Police information in RMS is transmitted throughout the province using GONET, the Government of Ontario's wide-area network. Adequate security measures to ensure data confidentiality were not in place, in that transmissions were in clear text and not encrypted. As a result, confidential information on victims, suspects, and offenders was vulnerable to unauthorized access and tampering. In addition, we were advised that the same transmission method was used in the previous OMPPAC system. Given that encryption technologies have been available on the market for many years, we would have expected this standard security feature to have been incorporated in the system.

We were advised that the Project Management Office plans to deploy high-technology cryptography to ensure that data transmissions are confidential, cannot be tampered with, and originate from a bona fide, verifiable source. However, until such new security measures are operational, confidential justice information is vulnerable to unauthorized access and manipulation.

- Neither CAD nor RMS had adequate controls to protect user accounts against unauthorized access, thus incurring the risk of data manipulation. In particular, neither system revoked user accounts after a number of unsuccessful log-in attempts, and both applications allowed easily guessed passwords, such as a single letter, to be used. Furthermore, RMS did not require users to change their preset password on first use after the account was created or reset, or periodically thereafter.

  In addition, we noted that there were inadequate controls to prevent unauthorized access to the new Offender Tracking and Information system for corrections, which was to maintain records of offenders and be introduced in May 2001 for use throughout the province.

Recommendation

To help ensure that confidential data in the Integrated Justice Project systems are adequately protected against unauthorized access and data tampering, the Ministries should:

- **expedite their plans for implementing cryptography and other controls to secure data transmitted over the wide-area network; and**
- **implement more rigorous password controls over user accounts.**

Ministries' Response

The confidentiality and integrity of sensitive data remain matters of highest priority for the Ministries. The Ministries are committed to monitoring project applications, ensuring that security meets, and in many cases exceeds, government requirements. For example:

- ***Working with police and correctional services stakeholders, project management completed an assessment of threats and risks to security. Appropriate security measures are being implemented to mitigate risks; options include the possible use of cryptography technologies.***
- ***Project management is currently implementing more rigorous password controls for the police applications and will review the password requirements for the correctional services application.***

- **ensure that consulting and related services can be demonstrated to have been acquired competitively and that payments are made in accordance with contractual terms and conditions.**

Ministries' Response

The Ministries have acted on the Auditor's concerns, recovering duplicate and other inappropriate charges and implementing additional controls to ensure that charges are properly documented, expense claims are accurately processed, and controls over computer hardware and software are in place.

The Ministries also conducted their own review of project administration, including that of consulting contracts, to ensure that no other discrepancies exist and that in future the Ministries' and the Management Board Secretariat's guidelines governing the acquisition of consulting and related services are followed.

SYSTEM SECURITY

At the completion of our audit, the new systems were primarily in the development stage and were not operational. Only the new Computer-aided Dispatch (CAD) system and the Records Management System (RMS) for police had begun to be implemented. CAD tracks all emergency calls and the assignments of officers, while RMS maintains information on suspects, victims, witnesses, and the accused. These two systems replaced the existing Ontario Municipal and Provincial Police Automation Co-operative (OMPPAC) system used by the Ontario Provincial Police (OPP) and approximately 40 municipal police forces. In the period from September 2000 to March 2001, four of the OPP's 11 communications centres began using CAD, and over 60% of officers were trained on and began using RMS. On March 7, 2001, the first municipal police service began using the two systems.

The new police systems were an initial release, and the Project Management Office was planning to implement further functional enhancements and improvements to these programs in future. Since, at the same time, significant efforts would be made to roll out both the remaining new systems and the added-functionality releases of programs now in initial release, we concluded that a complete security audit would not be practical at this time. However, we reviewed security measures and procedures in place for the new systems and had the following serious concerns:

- Police information in RMS is transmitted throughout the province using GONET, the Government of Ontario's wide-area network. Adequate security measures to ensure data confidentiality were not in place, in that transmissions were in clear text and not encrypted. As a result, confidential information on victims, suspects, and offenders was vulnerable to unauthorized access and tampering. In addition, we were advised that the same transmission method was used in the previous OMPPAC system. Given that encryption technologies have been available on the market for many years, we would have expected this standard security feature to have been incorporated in the system.

We were advised that the Project Management Office plans to deploy high-technology cryptography to ensure that data transmissions are confidential, cannot be tampered with, and originate from a bona fide, verifiable source. However, until such new security measures are operational, confidential justice information is vulnerable to unauthorized access and manipulation.

- Neither CAD nor RMS had adequate controls to protect user accounts against unauthorized access, thus incurring the risk of data manipulation. In particular, neither system revoked user accounts after a number of unsuccessful log-in attempts, and both applications allowed easily guessed passwords, such as a single letter, to be used. Furthermore, RMS did not require users to change their preset password on first use after the account was created or reset, or periodically thereafter.

  In addition, we noted that there were inadequate controls to prevent unauthorized access to the new Offender Tracking and Information system for corrections, which was to maintain records of offenders and be introduced in May 2001 for use throughout the province.

Recommendation

To help ensure that confidential data in the Integrated Justice Project systems are adequately protected against unauthorized access and data tampering, the Ministries should:

- **expedite their plans for implementing cryptography and other controls to secure data transmitted over the wide-area network; and**
- **implement more rigorous password controls over user accounts.**

Ministries' Response

The confidentiality and integrity of sensitive data remain matters of highest priority for the Ministries. The Ministries are committed to monitoring project applications, ensuring that security meets, and in many cases exceeds, government requirements. For example:

- ***Working with police and correctional services stakeholders, project management completed an assessment of threats and risks to security. Appropriate security measures are being implemented to mitigate risks; options include the possible use of cryptography technologies.***
- ***Project management is currently implementing more rigorous password controls for the police applications and will review the password requirements for the correctional services application.***

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

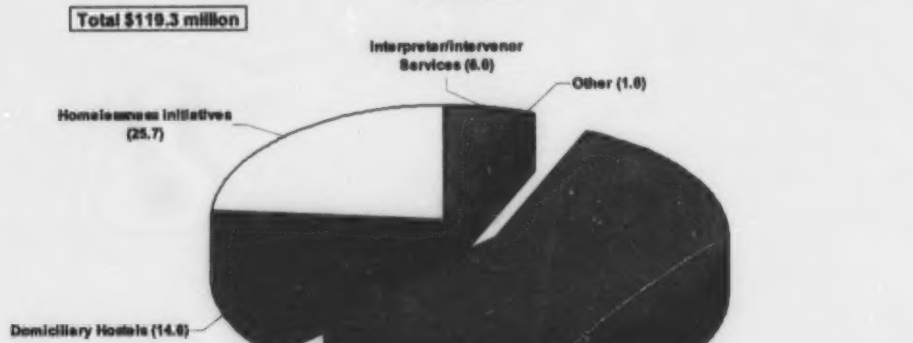
3.04–Support to Community Living Programs

BACKGROUND

Under provisions of the *Ministry of Community and Social Services Act* and the *Child and Family Services Act*, this Ministry provides funding for a wide range of community-based support services and prevention strategies for adults and children who are disadvantaged or living in poverty. The main objectives of these services are to assist such vulnerable individuals to live as independently as possible in their communities and to reduce the need for more intrusive and costly institutional care.

Under provisions of the *Ontario Works Act*, the Ministry also provides funding for the Emergency Hostel program, which provides temporary accommodation for the homeless.

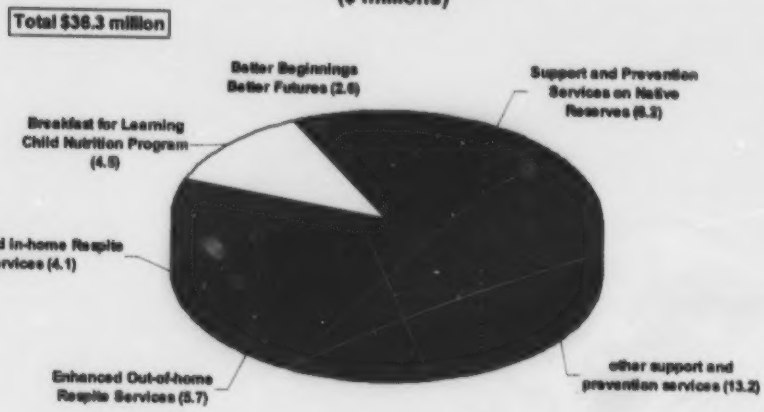
For the 2000/01 fiscal year, Ministry expenditures for Support to Community Living programs totalled $155.6 million as follows.



Adult Services and Emergency Hostels, 2000/01
($ millions)

Source of data: Ministry of Community and Social Services

Children's Services, 2000/01
($ millions)



Source of data: Ministry of Community and Social Services

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Ministry's administrative policies and procedures for Support to Community Living programs were adequate to ensure that:

- transfer payments were reasonable and adequately controlled; and
- services being provided were monitored and assessed to determine whether they were meeting the Ministry's expectations.

The scope of our audit work included reviews and analyses of relevant ministry files and administrative policies and procedures, as well as interviews with appropriate staff at the Ministry's head office and three regional offices. We also visited several municipalities and domiciliary and emergency hostels to gain a better understanding of the services being provided and to corroborate information provided to us by the Ministry.

Prior to the commencement of our audit, we identified the audit criteria that we would use to conclude on our audit objectives. These were reviewed with and agreed to by senior ministry management.

We conducted our audit work in the period October 2000 to March 2001, with an emphasis on expenditures during the 1999/2000 and the 2000/01 fiscal years. Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We could not rely on the work of the Ministry's Comprehensive Audit and Investigation Branch to reduce the extent of our work because the Branch had not issued any reports in this area in the past three years.

OVERALL AUDIT CONCLUSIONS

We concluded that the Ministry's administrative policies and procedures were not adequate to ensure that transfer payments were reasonable and adequately controlled. Our main concerns were:

- The Ministry did not ensure that the per diem amounts it paid for placements in both emergency and domiciliary hostels were based on actual resident occupancies and did not exceed its set share of the costs as per the terms of its cost-sharing agreements with municipalities. As a result, the Ministry often paid more than it should have. For example:
  - Over the past three years, the Ministry paid one municipality $16.5 million more than it was required to pay for emergency hostels. The Ministry recovered overpayments from the first two years and advised us that it was in the process of recovering the overpayments from the third year.
  - For another municipality, the Ministry reimbursed 100% of domiciliary hostel costs incurred rather than the 80% required, which resulted in a $1.8-million overpayment over the past two years. At the conclusion of our audit, we were informed that the Ministry was in the process of recovering this amount.
  - The Ministry paid as much as $76 per person per day to one municipality for emergency hostel care, which significantly exceeded the maximum reimbursable amount of $27.60 per person per day (80% of the maximum allowable per diem rate of $34.50). This amounted to average overpayments totalling $370,000 per year for the past two years. The Ministry was unaware of these overpayments and had not recovered these amounts.
- Funding for other types of services (non per diem) was not based on a critical assessment of funding needs to ensure that the amounts provided were reasonable and commensurate with the level and quality of the services to be provided. For example:
  - From a sample of payments made by the Ministry to municipal service managers for homelessness initiatives, we found that payments were often made late in the year and, in many cases, significantly exceeded the amounts required for that year. For example, following a shift in funding from the fiscal year to the calendar year for one homelessness initiative, we found that six municipalities received 12-month allocations for services to be provided during the last nine months of 2000. We estimate that this resulted in excess funding totalling approximately $730,000—an overpayment the Ministry was not aware of.
  - Funding for interpreter services varied from $57 to $183 per hour without justification or explanation as to the reasonableness of these amounts or this range.
  - Budget submission packages prepared by transfer-payment agencies that offer interpreter/intervenor and children's services generally lacked sufficiently detailed and relevant information for making meaningful funding decisions. The Ministry had in most cases approved agency funding requests for the same or similar amounts to those approved in prior years without reference to changes in the demand for services to be provided.

We also concluded that the Ministry did not monitor and assess the services provided by transfer-payment recipients to ensure that they were meeting its expectations. In fact, the Ministry had not implemented the new governance and accountability framework it had developed for all of its transfer-payment recipients in 1999—a framework based on the mandatory requirements of the 1998 Management Board of Cabinet Directive on Transfer Payment Accountability. Therefore, we found little to no evidence that the Ministry was holding transfer-payment recipients accountable for the prudent use of ministry funds. Requirements of the framework that the Ministry was not complying with included:

- defining measurable program expectations and whenever possible tying funding to the achievement of those expectations;
- monitoring progress against the established program expectations; and
- taking corrective action where performance expectations have not been met.

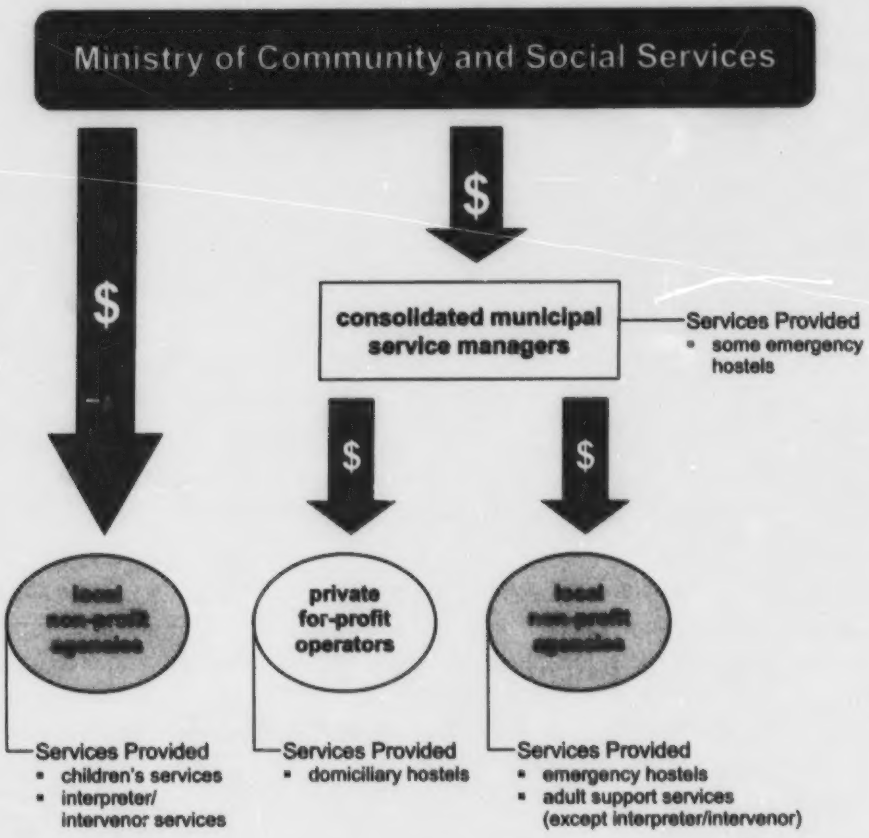
Until such time as the Ministry implements an effective accountability framework for transfer payments, it cannot ensure that services provided by transfer-payment recipients are of an acceptable and reasonably consistent standard across the province, nor that these services represent value for money spent.

In the absence of an effective accountability framework, the Ministry was essentially relying on the governance structures of transfer-payment recipients themselves to ensure cost-effectiveness. However, we found that the Ministry had not established the conditions to justify such a reliance by, for example, setting minimum requirements for financial management and the internal collection and reporting of information, as well as evaluating that these requirements are being met, and taking corrective action where necessary.

DETAILED AUDIT OBSERVATIONS

PROGRAM ADMINISTRATION

The Ministry funds Support to Community Living programs in two distinct ways, as illustrated in the following diagram.


Ministry of Community and Social Services
$
$
consolidated municipal service managers
Services Provided
some emergency hostels
$
$
local non-profit agencies
private for-profit operators
local non-profit agencies
Services Provided
children's services
interpreter/ intervenor services
Services Provided
domiciliary hostels
Services Provided
emergency hostels
adult support services (except interpreter/intervenor)

Prepared by the Office of the Provincial Auditor

The Ministry provides funding to consolidated municipal service managers for adult services (except interpreter/intervenor services) and for hostels. A consolidated municipal service manager can be either a designated municipality (in southern Ontario) or a district social services board (in parts of northern Ontario). These consolidated municipal service managers manage and co-ordinate funding and programs in their respective jurisdictions and are accountable to one of the Ministry's nine regional offices for the prudent use of ministry funds.

With the funds provided by the Ministry, consolidated municipal service managers directly operate some of the emergency hostels themselves. For the remaining hostels and for the delivery of other adult services, consolidated municipal service managers contract with local non-profit agencies, or in the case of domiciliary hostels with private, for-profit operators. These service providers report to and are accountable to the consolidated municipal service managers.

The Ministry also provides direct funding to local non-profit agencies that are governed by independent boards of directors for the delivery of most children's services and interpreter/intervenor services. These agencies are directly accountable to the Ministry's regional offices for the funding that they receive, in accordance with the Ministry's traditional funding framework for transfer payments made directly to service providers.

Regardless of whether funding is provided to consolidated municipal service managers or directly to local service providers, the Ministry is ultimately accountable for ensuring these funds are used prudently and for the purposes intended.

PROGRAM FUNDING

The source and extent of funding for services offered under the Support to Community Living programs are generally determined in the following ways, unless otherwise noted in our report.

Source and Extent of Funding for Support to Community Living Programs

Program/Service	Source of Funding	Extent of Funding
Adult Services (except Interpreter/Intervenor and Provincial Homelessness Initiatives Fund)	80% provincial 20% municipal	limited to amounts specified in annual funding agreements
Children's Services, Interpreter/Intervenor Services, and Provincial Homelessness Initiatives Fund	100% provincial	limited to amounts specified in annual funding agreements
Emergency Hostels	80% provincial 20% municipal	not limited to predetermined amounts

Prepared by the Office of the Provincial Auditor

The Ministry shares funding 80:20 with municipalities for some services, but funds the full share of the cost for other services. The amount of funding is usually limited to amounts that are specified in annual funding agreements between the province and consolidated municipal service managers or local, direct service providers as the case may be.

No limits are placed on the number of beds that are funded at the approved per diem rates for the Emergency Hostel program. Payments made for this program are determined by monthly claims submitted by consolidated municipal service managers. These claims are supposed to be based on actual emergency hostel occupancies and approved maximum per diem rates.

Our review of the funding provided under these various arrangements found that it was not adequately controlled. For example, hostel funding was often not based on hostel occupancies or the approved per diem rates as required, while funding for other services was not based on assessed needs. Our specific concerns are noted in the following sections.

Domiciliary Hostels

Domiciliary hostels provide permanent housing (usually in private or semi-private rooms) and custodial care and support to vulnerable people who are economically disadvantaged and who are elderly and/or have significant health problems. In Ontario, there are approximately 280 domiciliary hostels that provide housing to 4,000 individuals each day.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Ministry funding for domiciliary hostels is provided to consolidated municipal service managers under a cost-sharing agreement that limits the amount of funding available each year. Under the agreement, the maximum per diem rate to December 31, 2000 was $34.50 and was increased to $40 after that date. Consolidated municipal service managers in turn contract with private, for-profit operators of domiciliary hostels in their area to deliver services.

Most residents of domiciliary hostels have a limited income, such as Ontario Disability Support Payments or Old Age Security payments, and are expected to contribute to the cost of their care. Income that exceeds the personal-needs allowance, which is currently $112 per month, is paid to the hostel operator by the resident. The difference between the resident's contribution and the maximum reimbursable per diem fee is billed by the hostel operator to the consolidated municipal service manager. The consolidated municipal service manager is in turn entitled to claim 80% of these costs from the Ministry under its annual cost-sharing agreement. In cases where a domiciliary hostel resident has no income, the consolidated municipal service manager can also claim from the Ministry 80% of the cost of providing the personal-needs allowance. The following table illustrates a typical breakdown of how the costs and funding are to be calculated for each type of resident as per provincial-municipal cost-sharing agreements.

Itemization of Costs and Funding for a Month's Placement at a Domiciliary Hostel

		Resident A (with income)	Resident B (no income)
monthly cost of ca	$34.50 X 30 days $1,035.00	$1,035.00	$1,035.00
resident A's income – personal-needs allowance = amount paid by resident A to hostel operator	$800 - $112 $688	- $688.00	
resident B's personal-needs allowance	currently $112		+ $112.00
amount billed by operator to municipal service manager		$347.00	$1,147.00
portion of costs claimed by municipal service manager and paid by Ministry	80%	$277.60	$917.60
portion of costs paid by municipal service manager	20%	$69.40	$229.40

Note: Amounts are not based on actual figures—they have been prepared by the Office of the Provincial Auditor for illustrative purposes only.

Two of the three regional offices we visited funded domiciliary hostels, while the third did not. In our review of a sample of monthly payments for domiciliary hostels from these two offices, we noted that payments were generally equal to one-twelfth of the agreed-upon annual funding limit.

Ministry funding for domiciliary hostels is provided to consolidated municipal service managers under a cost-sharing agreement that limits the amount of funding available each year. Under the agreement, the maximum per diem rate to December 31, 2000 was $34.50 and was increased to $40 after that date. Consolidated municipal service managers in turn contract with private, for-profit operators of domiciliary hostels in their area to deliver services.

Most residents of domiciliary hostels have a limited income, such as Ontario Disability Support Payments or Old Age Security payments, and are expected to contribute to the cost of their care. Income that exceeds the personal-needs allowance, which is currently $112 per month, is paid to the hostel operator by the resident. The difference between the resident's contribution and the maximum reimbursable per diem fee is billed by the hostel operator to the consolidated municipal service manager. The consolidated municipal service manager is in turn entitled to claim 80% of these costs from the Ministry under its annual cost-sharing agreement. In cases where a domiciliary hostel resident has no income, the consolidated municipal service manager can also claim from the Ministry 80% of the cost of providing the personal-needs allowance. The following table illustrates a typical breakdown of how the costs and funding are to be calculated for each type of resident as per provincial-municipal cost-sharing agreements.

Itemization of Costs and Funding for a Month's Placement at a Domiciliary Hostel

		Resident A (with income)	Resident B (no income)
monthly cost of care	$34.50 X 30 days $1,035.00	$1,035.00	$1,035.00
resident A's income – personal-needs allowance = amount paid by resident A to hostel operator	$800 - $112 $688	- $688.00	
resident B's personal-needs allowance	currently $112		+ $112.00
amount billed by operator to municipal service manager		$347.00	$1,147.00
portion of costs claimed by municipal service manager and paid by Ministry	80%	$277.60	$917.60
portion of costs paid by municipal service manager	20%	$69.40	$229.40

Note: Amounts are not based on actual figures—they have been prepared by the Office of the Provincial Auditor for illustrative purposes only.

Two of the three regional offices we visited funded domiciliary hostels, while the third did not. In our review of a sample of monthly payments for domiciliary hostels from these two offices, we noted that payments were generally equal to one-twelfth of the agreed-upon annual funding limit.

They were therefore not based on actual hostel occupancies or the approved, reimbursable, per diem rate as required under the cost-sharing agreement. In fact, the consolidated municipal service managers were not required to submit monthly claims forms or otherwise provide the Ministry with information about actual hostel occupancies or per diem rates paid. As a result, the Ministry could not determine the appropriateness of the amounts that it paid. This lack of information contributed to the following ministry overpayments, which were subsequently identified by consolidated municipal service managers:

- One ministry regional office reimbursed its largest consolidated municipal service manager for 100% of the domiciliary hostel cost it incurred rather than 80% as required. This resulted in an overpayment of $1.8 million over 1998 and 1999. At the conclusion of our audit, we were informed that the Ministry was in the process of recovering this amount.
- Two regional offices automatically provided funding to their consolidated municipal service managers to cover the personal-needs allowance to be provided to domiciliary hostel residents on social assistance. However, in most cases the allowance was secured out of residents' personal incomes and consolidated municipal service managers were therefore not billed by hostel operators for these allowances. This resulted in the two regional offices making overpayments that totalled $1.3 million in 1999 and $540,000 in 2000. At the conclusion of our audit, none of these amounts had been recovered.

We also noted that the Ministry did not have a process in place to periodically verify the appropriateness of the amounts that were claimed and that it paid—a process that might have identified the type of overpayments noted above.

Emergency Hostels

Emergency hostels provide temporary lodging (usually in a dormitory setting), meals, and, where needed, an allowance for personal needs to people who would otherwise be homeless. Although the Ministry could not provide us with information on the number of emergency hostels funded or the number of available beds, we estimated that during the 2000/01 fiscal year, emergency hostels provided approximately 2.1 million overnight placements.

Emergency hostels are operated by either consolidated municipal service managers themselves or, more commonly, by local, non-profit agencies under contract with a consolidated municipal service manager. In both cases, consolidated municipal service managers submit monthly claims to the Ministry for its share of the costs. Under the terms of the cost-sharing agreement between the Ministry and consolidated municipal service managers, the amounts claimed and paid should be based on actual hostel occupancies and should amount to 80% of the hostel costs up to the maximum per diem rate approved by Management Board of Cabinet. The maximum per diem rate to December 31, 2000 was $34.50 per day and was increased to $38.00 per day after that date. Consolidated municipal service managers can also claim 80% of the cost of providing the personal-needs allowance of $112 per month to eligible emergency hostel residents.

In our review of a sample of monthly claims submitted to and paid by the three ministry regional offices we visited, we noted that the claims form only demanded, and therefore only contained, information about the total amounts that were spent and being claimed. The claims form did not call for itemized information to support these totals, such as hostel occupancies and the per diem rates and personal-needs allowances paid—information that is supposed to be the basis of the claim. As a result, the Ministry could not verify the appropriateness of the amounts on the monthly claims it was paying. This lack of information contributed to the following overpayments:

- At one regional office, the monthly claim amounts paid by the Ministry for the past three years were based on actual costs, which significantly exceeded the Ministry's maximum per diem rate of $34.50. For example, amounts claimed and paid for 1998, 1999, and 2000 were based on average per diem rates of $36.73, $39.40, and $43.60 respectively. This resulted in ministry overpayments of $2.4 million, $6.1 million, and $8 million for those years respectively, which represented an average overpayment of approximately 13%. We noted that the first two amounts were recovered after the respective year-ends and that the Ministry was in the process of recovering the third.

  We understand that staff in this regional office were made aware of these overpayments by the consolidated municipal service manager after the end of each year. However, staff informed us they could not avoid similar overpayments during subsequent years, primarily because they felt that the claims form in use did not permit them to do so.

- At another regional office, approximately half of the amounts claimed and paid—about $1.5 million per year in the past two years—were based on block funding provided to service providers and not on actual hostel occupancies or the approved per diem rate as required under the cost-sharing agreement. The amounts reimbursed by the Ministry were as high as $76 per person per day, which significantly exceeded the maximum reimbursable amount of $27.60 (80% of $34.50), and resulted in an average overpayment of approximately $370,000 per year. The Ministry was unaware of these overpayments and had not recovered these amounts.

We also noted that the Ministry did not have a process in place to periodically verify the appropriateness of amounts that were claimed and that it paid—a process that might have identified the type of overpayments noted above.

Recommendation

To ensure that it is not overpaying for emergency and domiciliary hostel services and that payments are made in accordance with the cost-sharing agreement between it and consolidated municipal service managers, the Ministry should:

- **request information on actual hostel occupancies and on per diem rates and personal-needs allowances actually paid by consolidated municipal service managers to support monthly claims;**
- **verify that the monthly amounts claimed and paid do not exceed the maximum reimbursable amounts; and**
- **periodically verify the reliability of the information provided to detect ministry overpayments.**

Ministry Response

The Ministry acknowledges the need to enhance the flow and quality of information from consolidated municipal service managers with respect to the actual occupancy and costs of emergency hostel services.

The Ministry will take the necessary steps to refine the monthly reporting process and will conduct quarterly monitoring and verification to ensure that it is purchasing services in accordance with the cost-sharing agreement with municipalities.

FUNDING DUPLICATION FOR EMERGENCY HOSTEL RESIDENTS

Under the *Ontario Works Act*, individuals are entitled to either a monthly Ontario Works benefits cheque, a significant portion of which is a shelter allowance, or they are entitled to stay in an emergency shelter. They are not entitled to both.

Historically, individuals staying in emergency hostels did so for infrequent and brief periods of time so there was less risk that individuals staying at an emergency shelter might also be collecting an Ontario Works cheque with its shelter allowance. However, during our visits to emergency hostels, operators advised us that an increasing number of individuals are staying in emergency hostels for prolonged periods of time.

In fact, the 1999 report by the (Toronto) Mayors Homelessness Action Task Force, commonly referred to as the *Golden Report*, stated that only about one-quarter of emergency hostel users used the hostels for short-term emergency stays. The other three-quarters used them as "transitional housing" or were long-term "chronic hostel users." The report asserted that "hostels have become permanent housing for far too many of their users."

In 1998, the *Report of the Provincial Task Force on Homelessness* pointed out that there was no clear agreement as to how municipalities should respond to the situation in which people in the same month receive an Ontario Works cheque, which includes a shelter allowance, and also stay in an emergency hostel at no cost. The same report stated that "some estimates suggest this practice may involve as many as 60% of the emergency hostel client caseload."

Given this trend and in light of the fact that consolidated municipal service managers administer both Ontario Works benefits and emergency hostel care, two of the three largest consolidated municipal service managers that we visited had procedures in place to ensure that their emergency hostel residents were not in effect "double dipping"—that is, that residents staying in emergency hostels at no cost to them were not at the same time collecting Ontario Works benefits, which includes the shelter allowance. For example:

- Staff from one consolidated municipal service manager interviewed every individual who stayed in an emergency shelter for seven consecutive days or longer to determine whether or not these individuals were also receiving Ontario Works benefits. If benefits were being received, they were terminated the following month if the individual continued to stay in an emergency hostel.
- Another consolidated municipal service manager received monthly reports from each of its emergency hostels that detailed the length of stay by each resident. Based on this

claim. As a result, the Ministry could not verify the appropriateness of the amounts on the monthly claims it was paying. This lack of information contributed to the following overpayments:

- At one regional office, the monthly claim amounts paid by the Ministry for the past three years were based on actual costs, which significantly exceeded the Ministry's maximum per diem rate of $34.50. For example, amounts claimed and paid for 1998, 1999, and 2000 were based on average per diem rates of $36.73, $39.40, and $43.60 respectively. This resulted in ministry overpayments of $2.4 million, $6.1 million, and $8 million for those years respectively, which represented an average overpayment of approximately 13%. We noted that the first two amounts were recovered after the respective year-ends and that the Ministry was in the process of recovering the third.

  We understand that staff in this regional office were made aware of these overpayments by the consolidated municipal service manager after the end of each year. However, staff informed us they could not avoid similar overpayments during subsequent years, primarily because they felt that the claims form in use did not permit them to do so.

- At another regional office, approximately half of the amounts claimed and paid—about $1.5 million per year in the past two years—were based on block funding provided to service providers and not on actual hostel occupancies or the approved per diem rate as required under the cost-sharing agreement. The amounts reimbursed by the Ministry were as high as $76 per person per day, which significantly exceeded the maximum reimbursable amount of $27.60 (80% of $34.50), and resulted in an average overpayment of approximately $370,000 per year. The Ministry was unaware of these overpayments and had not recovered these amounts.

We also noted that the Ministry did not have a process in place to periodically verify the appropriateness of amounts that were claimed and that it paid—a process that might have identified the type of overpayments noted above.

Recommendation

To ensure that it is not overpaying for emergency and domiciliary hostel services and that payments are made in accordance with the cost-sharing agreement between it and consolidated municipal service managers, the Ministry should:

- **request information on actual hostel occupancies and on per diem rates and personal-needs allowances actually paid by consolidated municipal service managers to support monthly claims;**
- **verify that the monthly amounts claimed and paid do not exceed the maximum reimbursable amounts; and**
- **periodically verify the reliability of the information provided to detect ministry overpayments.**

Ministry Response

The Ministry acknowledges the need to enhance the flow and quality of information from consolidated municipal service managers with respect to the actual occupancy and costs of emergency hostel services.

The Ministry will take the necessary steps to refine the monthly reporting process and will conduct quarterly monitoring and verification to ensure that it is purchasing services in accordance with the cost-sharing agreement with municipalities.

FUNDING DUPLICATION FOR EMERGENCY HOSTEL RESIDENTS

Under the *Ontario Works Act*, individuals are entitled to either a monthly Ontario Works benefits cheque, a significant portion of which is a shelter allowance, or they are entitled to stay in an emergency shelter. They are not entitled to both.

Historically, individuals staying in emergency hostels did so for infrequent and brief periods of time so there was less risk that individuals staying at an emergency shelter might also be collecting an Ontario Works cheque with its shelter allowance. However, during our visits to emergency hostels, operators advised us that an increasing number of individuals are staying in emergency hostels for prolonged periods of time.

In fact, the 1999 report by the (Toronto) Mayors Homelessness Action Task Force, commonly referred to as the *Golden Report*, stated that only about one-quarter of emergency hostel users used the hostels for short-term emergency stays. The other three-quarters used them as "transitional housing" or were long-term "chronic hostel users." The report asserted that "hostels have become permanent housing for far too many of their users."

In 1998, the *Report of the Provincial Task Force on Homelessness* pointed out that there was no clear agreement as to how municipalities should respond to the situation in which people in the same month receive an Ontario Works cheque, which includes a shelter allowance, and also stay in an emergency hostel at no cost. The same report stated that "some estimates suggest this practice may involve as many as 60% of the emergency hostel client caseload."

Given this trend and in light of the fact that consolidated municipal service managers administer both Ontario Works benefits and emergency hostel care, two of the three largest consolidated municipal service managers that we visited had procedures in place to ensure that their emergency hostel residents were not in effect "double dipping"—that is, that residents staying in emergency hostels at no cost to them were not at the same time collecting Ontario Works benefits, which includes the shelter allowance. For example:

- Staff from one consolidated municipal service manager interviewed every individual who stayed in an emergency shelter for seven consecutive days or longer to determine whether or not these individuals were also receiving Ontario Works benefits. If benefits were being received, they were terminated the following month if the individual continued to stay in an emergency hostel.
- Another consolidated municipal service manager received monthly reports from each of its emergency hostels that detailed the length of stay by each resident. Based on this

information, the consolidated municipal service manager assessed whether or not the individuals should continue to receive Ontario Works benefits.

Staff at the third consolidated municipal service manager we visited felt that it was not their responsibility to identify potential "double dippers" and therefore had no procedures in place to identify long-term emergency hostel residents who were also receiving Ontario Works benefits.

Recommendation

To comply with the *Ontario Works Act* by ensuring that individuals who reside in emergency hostels for extended periods of time are not also collecting Ontario Works benefits, which include a shelter allowance, the Ministry should:

- **formally assess the extent and impact of such occurrences; and**
- **if warranted, require that consolidated municipal service managers identify such individuals and develop procedures for taking corrective action where required.**

Ministry Response

The Ministry acknowledges the need to improve monitoring to ensure that residents of emergency hostels do not receive redundant supports. The Ministry will require that consolidated municipal service managers verify the extent to which long-term Ontario Works recipients reside in emergency shelters and resolve any shelter allowance redundancies as needed.

Homelessness Initiatives

The Provincial Task Force on Homelessness issued recommendations in October 1998. In the following months, the Ministry began to provide funding for several new homelessness initiatives. Brief descriptions of the two main initiatives—the Provincial Homelessness Initiatives Fund and the Emergency Hostel Redirection Fund—follow.

The objective of the Provincial Homelessness Initiatives Fund (PHIF) is to fund programs that will:

- move people from the street to emergency accommodations;
- move people from emergency accommodation to permanent housing; and
- help people retain permanent housing and thereby prevent homelessness.

While consolidated municipal service managers contract with local non-profit agencies for service delivery, they are not required to contribute to the cost of this initiative. PHIF funding for the 2000/01 fiscal year totalled approximately $10.4 million and was provided to consolidated municipal service managers based on their population and on 1998 expenditures for emergency hostels within their jurisdictions.

information, the consolidated municipal service manager assessed whether or not the individuals should continue to receive Ontario Works benefits.

Staff at the third consolidated municipal service manager we visited felt that it was not their responsibility to identify potential "double dippers" and therefore had no procedures in place to identify long-term emergency hostel residents who were also receiving Ontario Works benefits.

Recommendation

To comply with the *Ontario Works Act* by ensuring that individuals who reside in emergency hostels for extended periods of time are not also collecting Ontario Works benefits, which include a shelter allowance, the Ministry should:

- **formally assess the extent and impact of such occurrences; and**
- **if warranted, require that consolidated municipal service managers identify such individuals and develop procedures for taking corrective action where required.**

Ministry Response

The Ministry acknowledges the need to improve monitoring to ensure that residents of emergency hostels do not receive redundant supports. The Ministry will require that consolidated municipal service managers verify the extent to which long-term Ontario Works recipients reside in emergency shelters and resolve any shelter allowance redundancies as needed.

Homelessness Initiatives

The Provincial Task Force on Homelessness issued recommendations in October 1998. In the following months, the Ministry began to provide funding for several new homelessness initiatives. Brief descriptions of the two main initiatives—the Provincial Homelessness Initiatives Fund and the Emergency Hostel Redirection Fund—follow.

The objective of the Provincial Homelessness Initiatives Fund (PHIF) is to fund programs that will:

- move people from the street to emergency accommodations;
- move people from emergency accommodation to permanent housing; and
- help people retain permanent housing and thereby prevent homelessness.

While consolidated municipal service managers contract with local non-profit agencies for service delivery, they are not required to contribute to the cost of this initiative. PHIF funding for the 2000/01 fiscal year totalled approximately $10.4 million and was provided to consolidated municipal service managers based on their population and on 1998 expenditures for emergency hostels within their jurisdictions.

The objective of the Emergency Hostel Redirection Fund (Redirection funding) is to fund projects that move people from emergency accommodations to permanent housing and help them retain permanent housing. Total available Redirection funding for the 2000/01 fiscal year was approximately $8.7 million, of which $6 million was spent. Funding for this initiative is also provided to consolidated municipal service managers and is based on amounts requested and approved through an annual business case, and these amounts are limited in all cases to no more than 15% of their 1998 expenditures for emergency hostels. Services provided under this initiative are cost-shared with consolidated municipal service managers on an 80:20 basis. Services are provided by local non-profit agencies under agreements with the consolidated municipal service manager.

Our review of a sample of payments by the Ministry to consolidated municipal service managers for both new initiatives found that they were often made late in the year and, in many cases, significantly exceeded the consolidated municipal service managers' requirements for that year. For example:

- In October 1999, the Ministry approved $1.34 million in Redirection funding to a consolidated municipal service manager for services to be provided during the 1999 calendar year. At the time that the amount was approved, the consolidated municipal service manager noted that it could not spend these funds unless it had a firm commitment of funding for the following year—a commitment the Ministry could not make. Nevertheless, a cheque for $1.34 million was issued to the consolidated municipal service manager in November 1999. In June 2000, the consolidated municipal service manager advised the Ministry that none of the funds received in November 1999 had been spent. We were advised that the unspent funds were recovered in December 2000.
- The same consolidated municipal service manager projected a surplus of $1.5 million in Redirection funding for calendar year 2000 out of the $4.5 million provided by the Ministry. We understand that the consolidated municipal service manager instructed its service delivery agencies to add 5% to their approved allocation and to use these funds for other purposes.
- The Ministry approved another consolidated municipal service manager's business case for Redirection funding for the 2000 calendar year in November 2000. The Ministry paid the entire year's funding of $253,000 for 2000 in February 2001. Since the majority of redirection services were only being delivered as of September 2000, the Ministry provided a year's worth of funding for essentially four months of service.
- For 2000, the Ministry provided PHIF funding on a calendar-year basis, whereas in previous years PHIF initiatives were funded on a fiscal-year basis. Given this change, for 2000, PHIF funding ought to have been pro-rated for the nine-month period from April 1 to December 31. However, in our review of funding provided to eight consolidated municipal service managers, we found that six received 12-month allocations for services to be provided during the last nine months of 2000. We estimate that this resulted in excess funding totalling approximately $730,000—an overpayment the Ministry was not aware of.

Recommendation

To ensure that funding for homelessness initiatives is spent prudently and in the most effective manner for meeting the needs of the homeless, the Ministry should ensure that:

- **funding is approved and provided on a timely basis and is consistent with the recipients' ability to provide the services agreed to; and**
- **ministry funding is used only for the purposes intended.**

Ministry Response

The Ministry acknowledges that the implementation of new funding initiatives can impact the ability of municipalities and agencies to spend the new funding as intended. The Ministry will continue to work within the government's funding approval process and flow new resources in a manner that is timely and reflects the ability of consolidated municipal service managers to start up the programs as intended.

Interpreter/Intervenor and Children's Services

Ministry funding for interpreter services, which assist hearing impaired individuals, and for intervenor services, which assist individuals with both visual and hearing impairments, totalled $6 million during the 2000/01 fiscal year. For the same year, the Ministry provided funding for various children's services that totalled approximately $36.3 million. Funding for these services is generally transferred directly to local non-profit agencies that provide these services under annual service and funding agreements with the Ministry.

Annual agreements are based on agency-prepared budget submission packages that include such information as: service descriptions, the total amount of funding requested, total salaries and benefits, and other operating costs to be incurred. The Ministry is to review these budget submissions prior to funding approval, taking into consideration the type and amount of services to be provided, prior years' funding surpluses or deficits, and any other information that is available.

However, in our review of budget submission packages, we found that they generally lacked sufficiently detailed and relevant information for making meaningful funding decisions—decisions that would ensure the amount of funding approved is commensurate with the services to be provided. The Ministry had, in most cases, approved agency funding requests for the same or similar amounts to those approved in prior years without reference to, for example, changes in the services to be provided. This practice perpetuated funding inequities from prior years and contributed to the Ministry funding a number of items that were in our view questionable. For example:

- Ministry funding for interpreter services varied from $57 to $183 per hour without explanation for the reasonableness of these amounts or this range. We understand that the Ministry identified this variance in hourly cost as an issue and intends to standardize the rates it will fund in future years.

- The Ministry transferred to an agency that provided intervenor services an additional $230,000 in March 1999, the end of the agency's fiscal year. We could not locate any documentation demonstrating the need for this payment and also noted that the agency already had a $130,000 funding surplus from the $620,000 it initially received from the Ministry earlier in the year.
- A children's agency that received $1.4 million in ministry funding in turn transferred $558,000 of it to third parties to deliver services. These parties, however, were not accountable to the Ministry for how this money was used.

Recommendation

To help ensure that ministry funding is reasonable and commensurate with the underlying services to be provided and that value for money is being received for services rendered, before funding is provided the Ministry should:

- **require that agency budget submissions contain sufficiently detailed information on the services to be provided and the related costs to be incurred to enable informed funding decisions; and**
- **critically review and assess the reliability of that information.**

Ministry Response

Ministry financial policies for transfer-payment agencies require the annual negotiation of agency budgets based on a review of service data and the setting of appropriate service targets.

The Ministry recognizes the need to improve the quality and timely use of such information. As part of the annual business cycle, regional offices will ensure that information in agency budgets is of the required quality, has the required level of detail, and supports the funding decision.

ANNUAL PROGRAM EXPENDITURE RECONCILIATION

Transfer-payment recipients that receive more than $75,000 in ministry funding in a year are required to complete an Annual Program Expenditure Reconciliation (APER). The purpose of an APER is to enable the Ministry to reconcile a program's eligible expenditures with the funding provided by the Ministry in order to identify inappropriate or ineligible expenditures and any funding surpluses. Where the transfer-payment recipient is not a municipality, the APER is to be accompanied by an audited financial statement. When not apparent from the audited financial statement itself, the statement is to include a note detailing any operating surpluses or deficits arising from the ministry-funded program.

We found that for the 1999/2000 fiscal year, APERs were generally received and reviewed on a timely basis. However, in our view, the process was not effective for the reasons detailed below:

Recommendation

To ensure that funding for homelessness initiatives is spent prudently and in the most effective manner for meeting the needs of the homeless, the Ministry should ensure that:

- **funding is approved and provided on a timely basis and is consistent with the recipients' ability to provide the services agreed to; and**
- **ministry funding is used only for the purposes intended.**

Ministry Response

The Ministry acknowledges that the implementation of new funding initiatives can impact the ability of municipalities and agencies to spend the new funding as intended. The Ministry will continue to work within the government's funding approval process and flow new resources in a manner that is timely and reflects the ability of consolidated municipal service managers to start up the programs as intended.

Interpreter/Intervenor and Children's Services

Ministry funding for interpreter services, which assist hearing impaired individuals, and for intervenor services, which assist individuals with both visual and hearing impairments, totalled $6 million during the 2000/01 fiscal year. For the same year, the Ministry provided funding for various children's services that totalled approximately $36.3 million. Funding for these services is generally transferred directly to local non-profit agencies that provide these services under annual service and funding agreements with the Ministry.

Annual agreements are based on agency-prepared budget submission packages that include such information as: service descriptions, the total amount of funding requested, total salaries and benefits, and other operating costs to be incurred. The Ministry is to review these budget submissions prior to funding approval, taking into consideration the type and amount of services to be provided, prior years' funding surpluses or deficits, and any other information that is available.

However, in our review of budget submission packages, we found that they generally lacked sufficiently detailed and relevant information for making meaningful funding decisions—decisions that would ensure the amount of funding approved is commensurate with the services to be provided. The Ministry had, in most cases, approved agency funding requests for the same or similar amounts to those approved in prior years without reference to, for example, changes in the services to be provided. This practice perpetuated funding inequities from prior years and contributed to the Ministry funding a number of items that were in our view questionable. For example:

- Ministry funding for interpreter services varied from $57 to $183 per hour without explanation for the reasonableness of these amounts or this range. We understand that the Ministry identified this variance in hourly cost as an issue and intends to standardize the rates it will fund in future years.

- The Ministry transferred to an agency that provided intervenor services an additional $230,000 in March 1999, the end of the agency's fiscal year. We could not locate any documentation demonstrating the need for this payment and also noted that the agency already had a $130,000 funding surplus from the $620,000 it initially received from the Ministry earlier in the year.
- A children's agency that received $1.4 million in ministry funding in turn transferred $558,000 of it to third parties to deliver services. These parties, however, were not accountable to the Ministry for how this money was used.

Recommendation

To help ensure that ministry funding is reasonable and commensurate with the underlying services to be provided and that value for money is being received for services rendered, before funding is provided the Ministry should:

- **require that agency budget submissions contain sufficiently detailed information on the services to be provided and the related costs to be incurred to enable informed funding decisions; and**
- **critically review and assess the reliability of that information.**

Ministry Response

Ministry financial policies for transfer-payment agencies require the annual negotiation of agency budgets based on a review of service data and the setting of appropriate service targets.

The Ministry recognizes the need to improve the quality and timely use of such information. As part of the annual business cycle, regional offices will ensure that information in agency budgets is of the required quality, has the required level of detail, and supports the funding decision.

ANNUAL PROGRAM EXPENDITURE RECONCILIATION

Transfer-payment recipients that receive more than $75,000 in ministry funding in a year are required to complete an Annual Program Expenditure Reconciliation (APER). The purpose of an APER is to enable the Ministry to reconcile a program's eligible expenditures with the funding provided by the Ministry in order to identify inappropriate or ineligible expenditures and any funding surpluses. Where the transfer-payment recipient is not a municipality, the APER is to be accompanied by an audited financial statement. When not apparent from the audited financial statement itself, the statement is to include a note detailing any operating surpluses or deficits arising from the ministry-funded program.

We found that for the 1999/2000 fiscal year, APERs were generally received and reviewed on a timely basis. However, in our view, the process was not effective for the reasons detailed below:

- APERs are not required for the Emergency Hostel program. In fact, no expenditure reconciliation of any kind was being performed for this program.
- APERs for the Domiciliary Hostel program only compared the *total amount reported as spent on the program* to the *amount received*. The APERs provided no information on the number of placements provided during the year or the per diem rates paid—criteria that are supposed to be the basis of program funding.
- For approximately 40% of the APERs that were accompanied by audited financial statements, the accompanying financial statements lacked sufficient detail or the required disclosure note needed to identify inappropriate or ineligible expenditures. As a result, the Ministry could not reconcile audited financial statements with the APERs' reported expenditures.

We also found that even in cases where surplus funding was identified, agencies were permitted to retain the surplus funds for extended periods of time, contrary to the requirements to recover such surplus funds established by Management Board of Cabinet directive. For example:

- In April 2000, a children's agency received $90,000 for the 1999/2000 fiscal year. The Ministry advised the agency that it could carry these funds forward through to the end of the 2002/03 fiscal year.
- Another agency had been allowed to carry forward approximately $70,000 for the past three fiscal years. When the funds were finally reported as spent in 1999/2000, no information was provided to the Ministry to show that the funds were spent for the purposes for which they were originally approved.

Recommendation

To improve the effectiveness of the Ministry's Annual Program Expenditure Reconciliation (APER) process for identifying inappropriate or ineligible expenditures, returning excess program funding to the Ministry, and supporting future funding decisions, the Ministry should ensure that:

- **APERs contain sufficiently detailed and relevant information; and**
- **all surplus funds identified are returned to the Ministry on a timely basis as required by Management Board of Cabinet directive.**

Ministry Response

In order to facilitate surplus recovery and expenditure adjustment in advance of further budget negotiation, ministry financial policies require that agencies:

- ***report significant variances and potential surpluses by the third quarter; and***
- ***complete reconciliation accounting within four months of the end of the fiscal year.***

Agencies are required to provide expenditure information consistent with the Ministry's global budgeting approach.

The Ministry acknowledges the need for continued improvement in this area and will duly consider the concerns raised in the Provincial Auditor's assessment of the efficacy of the APER process. For example, the 2001/02 APER package will include updated definitions of ineligible agency expenditures. The Ministry is also considering a requirement that agencies formally certify that their APER statements comply with ministry expenditure policies.

ACCOUNTABILITY FRAMEWORK FOR AND GOVERNANCE OF TRANSFER-PAYMENT AGENCIES

In recent years, local service realignment has given municipal governments increasing responsibilities for delivering and co-ordinating local social services. This, in many cases, has blurred the lines of accountability between the primary funder of social services, the Ministry, and the ultimate service providers, the transfer-payment agencies. Nevertheless, whether funding is provided to the municipal level of government or directly to transfer-payment agencies under the Ministry's traditional funding approach, the Ministry is ultimately accountable for the prudent use of all ministry funds.

In recent years, in our audits of some of the Ministry's other transfer-payment programs, we have recommended that the Ministry significantly strengthen its accountability framework for transfer payments to ensure that funds are spent prudently. As a result of these recommendations and the Ministry's own recognition that new relationships could no longer be managed in old ways, the Ministry developed a new ministry-wide governance and accountability framework for transfer-payment recipients that was approved in June 1999. This framework is based on the mandatory requirements of the Management Board of Cabinet Directive on Transfer Payment Accountability and has at its core the following key requirements:

- The Ministry must set expectations that are consistent with core businesses, legislative and policy requirements, and approved program objectives and standards. Expectations must focus on measurable results to the greatest extent possible, and whenever possible, funding should be tied to the achievement of expected outcomes.
- Monitoring and reporting requirements must be reasonable, clearly understood, and based on established performance measures.
- Mechanisms should be in place for implementing corrective action, where necessary.

The Ministry's new framework also states that the highest standards of accountability will be applied in those situations where vulnerable clients are receiving services that affect all or most aspects of their lives, which is the case for many of the programs that are the subject of this audit.

With respect to the Ministry's new accountability framework and its stated intentions, we were advised that implementation was proceeding on a program-by-program basis. We found that in most cases, the requirements of both its own accountability framework and that of the

- APERs are not required for the Emergency Hostel program. In fact, no expenditure reconciliation of any kind was being performed for this program.
- APERs for the Domiciliary Hostel program only compared the *total amount reported as spent on the program* to the *amount received*. The APERs provided no information on the number of placements provided during the year or the per diem rates paid—criteria that are supposed to be the basis of program funding.
- For approximately 40% of the APERs that were accompanied by audited financial statements, the accompanying financial statements lacked sufficient detail or the required disclosure note needed to identify inappropriate or ineligible expenditures. As a result, the Ministry could not reconcile audited financial statements with the APERs' reported expenditures.

We also found that even in cases where surplus funding was identified, agencies were permitted to retain the surplus funds for extended periods of time, contrary to the requirements to recover such surplus funds established by Management Board of Cabinet directive. For example:

- In April 2000, a children's agency received $90,000 for the 1999/2000 fiscal year. The Ministry advised the agency that it could carry these funds forward through to the end of the 2002/03 fiscal year.
- Another agency had been allowed to carry forward approximately $70,000 for the past three fiscal years. When the funds were finally reported as spent in 1999/2000, no information was provided to the Ministry to show that the funds were spent for the purposes for which they were originally approved.

Recommendation

To improve the effectiveness of the Ministry's Annual Program Expenditure Reconciliation (APER) process for identifying inappropriate or ineligible expenditures, returning excess program funding to the Ministry, and supporting future funding decisions, the Ministry should ensure that:

- **APERs contain sufficiently detailed and relevant information; and**
- **all surplus funds identified are returned to the Ministry on a timely basis as required by Management Board of Cabinet directive.**

Ministry Response

In order to facilitate surplus recovery and expenditure adjustment in advance of further budget negotiation, ministry financial policies require that agencies:

- ***report significant variances and potential surpluses by the third quarter; and***
- ***complete reconciliation accounting within four months of the end of the fiscal year.***

Agencies are required to provide expenditure information consistent with the Ministry's global budgeting approach.

The Ministry acknowledges the need for continued improvement in this area and will duly consider the concerns raised in the Provincial Auditor's assessment of the efficacy of the APER process. For example, the 2001/02 APER package will include updated definitions of ineligible agency expenditures. The Ministry is also considering a requirement that agencies formally certify that their APER statements comply with ministry expenditure policies.

ACCOUNTABILITY FRAMEWORK FOR AND GOVERNANCE OF TRANSFER-PAYMENT AGENCIES

In recent years, local service realignment has given municipal governments increasing responsibilities for delivering and co-ordinating local social services. This, in many cases, has blurred the lines of accountability between the primary funder of social services, the Ministry, and the ultimate service providers, the transfer-payment agencies. Nevertheless, whether funding is provided to the municipal level of government or directly to transfer-payment agencies under the Ministry's traditional funding approach, the Ministry is ultimately accountable for the prudent use of all ministry funds.

In recent years, in our audits of some of the Ministry's other transfer-payment programs, we have recommended that the Ministry significantly strengthen its accountability framework for transfer payments to ensure that funds are spent prudently. As a result of these recommendations and the Ministry's own recognition that new relationships could no longer be managed in old ways, the Ministry developed a new ministry-wide governance and accountability framework for transfer-payment recipients that was approved in June 1999. This framework is based on the mandatory requirements of the Management Board of Cabinet Directive on Transfer Payment Accountability and has at its core the following key requirements:

- The Ministry must set expectations that are consistent with core businesses, legislative and policy requirements, and approved program objectives and standards. Expectations must focus on measurable results to the greatest extent possible, and whenever possible, funding should be tied to the achievement of expected outcomes.
- Monitoring and reporting requirements must be reasonable, clearly understood, and based on established performance measures.
- Mechanisms should be in place for implementing corrective action, where necessary.

The Ministry's new framework also states that the highest standards of accountability will be applied in those situations where vulnerable clients are receiving services that affect all or most aspects of their lives, which is the case for many of the programs that are the subject of this audit.

With respect to the Ministry's new accountability framework and its stated intentions, we were advised that implementation was proceeding on a program-by-program basis. We found that in most cases, the requirements of both its own accountability framework and that of the

Management Board of Cabinet Directive on Transfer Payment Accountability were not yet implemented for this program.

Firstly, explicit and measurable expectations and program standards were often not defined. For example, the Ministry had not established any expectations or standards for emergency and domiciliary hostels—such as for staffing levels and qualifications or for residents' meal requirements—despite the fact that a 1999 ministry study found a wide variation in the standard of care provided by domiciliary hostel operators as well as in the level of monitoring by consolidated municipal service managers.

Secondly, we observed inadequate monitoring and reporting. For example, the consolidated municipal service managers we visited had different interpretations of the performance measures in use for homelessness initiatives. As a consequence, they inconsistently collected performance information or failed to collect all the performance information required; and when information was collected, we found that the reliability of it was suspect due to a lack of training and to the double counting of the number of beneficiaries. As well, agencies providing children's services were not required to report on the amount or type of services provided or the results achieved.

Finally, in the absence of defined expectations or information about the services provided or results achieved, the Ministry could not know the nature or extent of corrective action required.

In the Ministry's regional offices, staff we interviewed often indicated that they viewed their principal role to be that of a funding provider. Indeed, in many cases, they were not even aware of the Ministry's accountability framework or the need to hold all transfer-payment recipients accountable for using ministry funds prudently and for the purposes intended.

Specifically, we noted the following instances where an effective accountability framework was lacking:

- One regional ministry office was aware that a consolidated municipal service manager was having difficulty compiling its emergency hostel expenditures, which were being submitted to the Ministry for reimbursement. When we reviewed these hostel expenditures for the past three years, we found that the Ministry reimbursed $225,000 to the consolidated municipal service manager for expenditures even though there was no documented support. This situation was of particular concern given that the Ministry does not verify hostel expenditure claims and must therefore rely on proper billing by consolidated municipal service managers.
- In 1999, one consolidated municipal service manager combined its PHIF funding of $4.7 million with its own existing fund of $900,000 to create a single homelessness fund of $5.6 million. Ministry staff assumed that this consolidated municipal service manager was separately tracking the projects funded by the Ministry and those it was funding itself. We found that this consolidated municipal service manager had not tracked the projects by funding source, nor could it produce a listing of all projects funded that year. In fact, it could only account for $4.7 million of the $5.6 million combined homelessness fund.
- No agreement existed between a consolidated municipal service manager and an agency that was receiving $345,000 in ministry funds under the Emergency Hostel Redirection Fund. In fact, the agency receiving the funding was different than the agency providing the services. The consolidated municipal service manager could not explain why this arrangement existed and why no agreement had been signed.

Until such time as the Ministry implements an effective accountability framework for transfer payments, it cannot be assured that services provided are of an acceptable and reasonably consistent standard across the province, nor that funding decisions are appropriate and represent value for money.

Because of the lack of an effective accountability framework for transfer-payment recipients, the Ministry must increasingly rely on consolidated municipal service managers and the good governance of the service-delivery agencies themselves to ensure the cost-effective delivery of programs.

For such reliance to be justified, the Ministry must ensure that:

- both the Ministry and the transfer-payment agency clearly understand the roles and responsibilities of each party;
- the management of each transfer-payment agency collectively has the expertise and experience that is necessary for the discharge of its responsibilities;
- the necessary operating policies and procedures are in place at the agency so that service delivery is achieved economically, efficiently, and effectively; and
- the agency has an appropriate governance and internal reporting structure.

Although the Ministry's new governance and accountability framework contained similar requirements, we found no evidence that they had been communicated to the recipients of ministry transfer payments or that the Ministry had determined whether or not the elements of good governance were in place.

Recommendation

To help ensure that services provided are of an acceptable and reasonably consistent standard and represent value for money spent, the Ministry should implement and communicate to its staff an accountability framework that satisfies the mandatory requirements of the Management Board Directive on Transfer Payment Accountability.

To enhance and justify the reliance the Ministry can place in the cost-effective governance of transfer-payment recipients, the Ministry should ensure that the conditions for such reliance have been communicated and are in place.

Ministry Response

The Ministry has commenced implementation of an Accountability and Governance Framework for its transfer-payment agencies that will meet or exceed Management Board requirements. The Ministry has already distributed to municipal governments* Roles and Responsibilities 2001: The Provincial/ Municipal Relationship in Human Services *(June 2001), which includes basic requirements for the governance and accountability of transfer-payments recipients.

Until such time as the Ministry implements an effective accountability framework for transfer payments, it cannot be assured that services provided are of an acceptable and reasonably consistent standard across the province, nor that funding decisions are appropriate and represent value for money.

Because of the lack of an effective accountability framework for transfer-payment recipients, the Ministry must increasingly rely on consolidated municipal service managers and the good governance of the service-delivery agencies themselves to ensure the cost-effective delivery of programs.

For such reliance to be justified, the Ministry must ensure that:

- both the Ministry and the transfer-payment agency clearly understand the roles and responsibilities of each party;
- the management of each transfer-payment agency collectively has the expertise and experience that is necessary for the discharge of its responsibilities;
- the necessary operating policies and procedures are in place at the agency so that service delivery is achieved economically, efficiently, and effectively; and
- the agency has an appropriate governance and internal reporting structure.

Although the Ministry's new governance and accountability framework contained similar requirements, we found no evidence that they had been communicated to the recipients of ministry transfer payments or that the Ministry had determined whether or not the elements of good governance were in place.

Recommendation

To help ensure that services provided are of an acceptable and reasonably consistent standard and represent value for money spent, the Ministry should implement and communicate to its staff an accountability framework that satisfies the mandatory requirements of the Management Board Directive on Transfer Payment Accountability.

To enhance and justify the reliance the Ministry can place in the cost-effective governance of transfer-payment recipients, the Ministry should ensure that the conditions for such reliance have been communicated and are in place.

Ministry Response

The Ministry has commenced implementation of an Accountability and Governance Framework for its transfer-payment agencies that will meet or exceed Management Board requirements. The Ministry has already distributed to municipal governments **Roles and Responsibilities 2001: The Provincial/ Municipal Relationship in Human Services** ***(June 2001), which includes basic requirements for the governance and accountability of transfer-payments recipients.***

The Ministry acknowledges the need to enhance agency accountability and will, in the next year, complete the process of confirming with its transfer-payment agencies that the new framework's requirements are incorporated into the annual business cycle. For instance, the 2002/03 budget package will include measurable performance indicators for all service areas.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

3.05–Violence Against Women Program

BACKGROUND

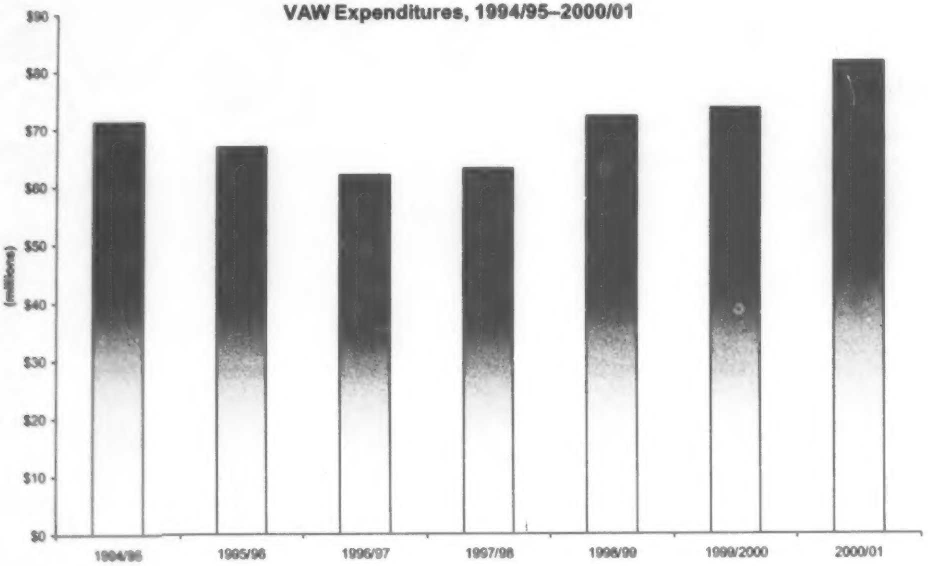
Under the provisions of the *Ministry of Community and Social Services Act,* the Violence Against Women (VAW) program funds transfer-payment agencies that provide women who have experienced violence or abuse and their children with safe shelter and other support services. Any woman who identifies herself as having been physically or emotionally abused is eligible for these services.

The Ministry's VAW program is a component of the government's Violence Against Women Prevention Initiative, which is delivered by ten provincial ministries, including the Ministry of Community and Social Services, and is co-ordinated by the Ontario Women's Directorate.

Total spending for the initiative was budgeted at $135 million for the 2000/01 fiscal year, of which $82 million was spent by the Ministry of Community and Social Services. Of that amount, the Ministry provided approximately $64 million to nearly 100 community-based, non-profit agencies that operated shelters giving temporary accommodation and security to approximately 15,000 women and 13,000 children during the year. These agencies also provided various other support services such as counselling, childcare, and emergency transportation.

The Ministry also provided approximately $18 million during the 2000/01 fiscal year to over 100 other community-based, non-profit agencies that did not operate a shelter but provided such services as counselling, violence prevention, and public-education programs.

Total program expenditures for the seven years since we last audited the program are detailed in the following graph.



VAW Expenditures, 1994/95–2000/01

Source of data: Ministry of Community and Social Services

Program policies and procedures are established by the Ministry's head office. The Ministry's nine regional offices oversee funding and program delivery for the agencies in their respective jurisdictions. Although the VAW program is delivered by community-based agencies, the Ministry is responsible for ensuring that program services are being delivered as intended and in a cost-effective manner.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Ministry's administration of the VAW program were to assess whether the Ministry had adequate policies and procedures in place to:

- monitor the services provided by its transfer-payment agencies to assess whether or not they were meeting the Ministry's expectations; and
- ensure that payments to transfer-payment agencies were reasonable and adequately controlled.

The scope of our audit work included a review and analysis of relevant ministry files and administrative policies and procedures as well as interviews with staff at the Ministry's head office and three regional offices. We also visited several women's shelters to gain a better understanding of the services provided and to review selected procedures.

Our audit work covered the period up to March 31, 2001, with emphasis on expenditures during the 1999/2000 and 2000/01 fiscal years. Our audit work was conducted in accordance with the standards for assurance engagements encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Prior to the commencement of our audit, we identified the audit criteria that we would use to conclude on our audit objectives. These were reviewed with and agreed to by senior ministry management.

We could not rely on the work of the Ministry's Comprehensive Audit and Investigation Branch to reduce the extent of our work because the Branch had not issued any audit reports on the VAW program during the last three years.

OVERALL AUDIT CONCLUSIONS

We concluded that the Ministry was not adequately monitoring or assessing the services provided by program-funding recipients to determine whether they were meeting its expectations. The Ministry's practices and procedures did not ensure that the services being provided were of an acceptable and consistent quality standard across the province or that they represented value for money spent.

The two following examples illustrate areas where quality standards for services provided were not met or were inconsistently applied:

- Staff at one of the shelters we visited advised us that over 1,000 women and children had been turned away during the year 2000. In that regard, we also noted that a ministry survey indicated that, at eight of the Ministry's nine regional offices, women and their children were turned away from VAW shelters and were redirected to shelters for the homeless during the year 2000, even though the Ministry acknowledged that homeless shelters do not provide appropriate supports for abused women and their children.
- Agencies we visited acknowledged that waiting times for counselling services were lengthy. In that regard, the ministry survey mentioned above found that waiting times for counselling services frequently ranged from three to six months.

These examples indicate both a capacity issue with the agencies that deliver services and a need for the Ministry to ensure that service standards are acceptable.

We also concluded that the Ministry's policies and procedures were not adequate to ensure that transfer payments to agencies providing services under the VAW program were reasonable and adequately controlled for the following reasons:

- The amount of funding provided to the program agencies was not based on an assessment of what costs would be reasonable for the services to be provided. As a result, the costs of similar services varied significantly among agencies. For example, we found that the average cost per person per day of residential care in a shelter ranged from $47 to $658, a range which the Ministry could not explain.

  Our work indicated that the Ministry's method of funding did not ensure appropriate and equitable funding for shelters that was clearly linked to an assessed level of demand and to services provided in the respective communities.
- The Ministry's annual process for reconciling actual expenditures against funds provided was deficient in identifying inappropriate or ineligible expenditures by agencies as well as ministry funding surpluses that should have been recovered.

We addressed similar concerns in our *1997 Annual Report*, in the section on Governance and Accountability of Transfer Payment Recipients. We noted that our recommendation that the Ministry critically assess requests for funding and ensure that the amounts approved are commensurate with the demand for services and the actual services provided had not been implemented with respect to the VAW program.

DETAILED AUDIT OBSERVATIONS

MONITORING OF SERVICES PROVIDED

Service Quality Standards

The Ministry needed to ensure that the type and quality of the services provided by its transfer-payment recipients are acceptable and reasonably consistent and that those services represent value for money spent. To accomplish this, it is essential that the Ministry communicate to transfer-payment recipients its expectations and standards for the quality of services to be provided and decide how and to what extent compliance with those expectations and standards is to be monitored.

In our *1994 Annual Report*, we noted that, other than a minimum staff-to-bed ratio for VAW shelters, the Ministry had not developed any standards, service directives, or guidelines for services to be provided under the VAW program. As a result, we recommended that the Ministry develop such standards and monitor agencies' performances against them on a regular basis. The Ministry had agreed with this recommendation and indicated that it would establish clear service expectations and monitor their achievement.

However, the Ministry's earlier commitment notwithstanding, we again found that the Ministry had not developed any standards for services provided under the VAW program. In fact, the only standard in place at the time of our audit in 1994 was discontinued in 1995.

Although establishing and monitoring service standards for the diversity of services offered under the VAW program is a difficult task, there are many areas where common service standards would be applicable to most agencies. These include:

- definitions of core services;
- minimum staffing levels and staff qualifications;
- admission criteria;
- acceptable waiting times;
- physical security; and
- service co-ordination with other service providers such as Children's Aid Societies.

In the absence of standards, our observations with respect to each of these areas are detailed below.

Core Services: Prior to 1995, the Ministry defined the core services to be provided by VAW shelters as: shelter and safety; crisis intervention, counselling and support to women and their children; administration; children's support worker; emergency transportation; and crisis telephone services.

Although the Ministry is still committed to the provision of these core services, it acknowledges that, due to funding constraints, some shelters may not be able to provide all of them anymore. However, the Ministry had no system in place to determine the extent to which these services were or were not being provided and therefore whether or not the services should have been reflected in funding allocations.

One of the recommendations resulting from the April 2001 inquest into the death of Jordan Heikamp, an infant who died in a VAW shelter, was that a policy should be developed to clarify the services a shelter does and does not offer.

Minimum Staffing Levels and Staff Qualifications: Although having sufficient numbers of staff is often necessary to ensure a reasonable level of service, especially within shelters, the Ministry had not assessed the sufficiency of shelter staffing levels since the 1995/96 fiscal year when it eliminated its standard of a minimum staff-to-bed ratio.

In addition, the Ministry had no standards or expectations in place regarding the qualifications or training of agency staff. At the time of our audit, determining those requirements was the responsibility of the agencies themselves. During our visits to shelters, we found that qualifications for key staff such as counsellors ranged from having related university degrees to no educational qualifications whatsoever.

In that regard, we noted that a recent ministry operational review of a shelter that had provided poor service recommended that the agency engage only qualified or trained staff.

Admission Criteria: Criteria for admission to VAW programs had not been communicated, and the Ministry's regional offices did not monitor the extent to which services were provided only to eligible individuals. In that regard, a research report completed in 2000 by a shelter association estimated that approximately 7% of women in VAW shelters were not abused and therefore should not have been in a VAW shelter.

Acceptable Waiting Times: Although prompt access to VAW services is often a primary determinant of their ultimate success, the Ministry has not established acceptable waiting times for services and does not regularly track information about waiting times.

In a one-time ministry survey of all regional offices in the fall of 2000, eight of the Ministry's nine regional offices reported that women and their children were turned away from VAW shelters and were redirected to shelters for the homeless during the year, even though the Ministry acknowledged that homeless shelters do not provide appropriate supports for abused women and their children. Staff at one of the shelters we visited advised us that over 1,000 women and children had been turned away during that year.

The survey also found that waiting times for counselling services frequently ranged from three to six months.

Physical Security: One of the primary objectives of the VAW program is to provide women and their children with a safe place to escape from violence. However, the Ministry had not established any standards for the physical security of shelters or for operational policies and procedures intended to promote safety. For example, we noted an instance where a VAW

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

shelter was situated across the street from the district jail, a location that the Ministry indicated as being inappropriate.

Service Co-ordination: VAW service providers regularly interact with other service providers such as Children's Aid Societies (CASs) and the police.

Shelters and other service providers may have differing views of how certain situations are best handled. For example, while the CAS is primarily focused on the well-being of children, shelters advocate for abused women and their children, and the Ministry acknowledged that the two sectors sometimes have contrary views about remedies to situations of potential harm to involved children.

The Ministry has recognized the importance of a VAW/CAS protocol for the provision of their respective services and, in 1998, formed an advisory committee for the development of such a protocol with representatives from both sectors. Although the protocol was to be implemented in late 1999, at the time of our audit in March 2001, it was still not finalized. We noted that some shelters had delayed the development of their own protocols in anticipation of the provincial model.

Recommendation

To ensure that services provided by all transfer-payment agencies under the Violence Against Women program are of an acceptable and reasonably consistent quality standard and that they represent value for money spent, the Ministry should:

- **establish and communicate its expectations for acceptable quality standards of service in each of the following areas: core services to be provided; minimum staffing levels and staff qualifications; admission criteria; acceptable waiting times; the physical security of shelters; and service co-ordination with other providers; and**
- **periodically assess whether the services provided by agencies are meeting ministry expectations and take appropriate corrective action if necessary.**

Ministry Response

The Ministry acknowledges the need to develop a reasonable level of standardization across the Violence Against Women program in order to be more accountable for the value of the services purchased from agencies and to ensure consistent, quality service to recipients while maintaining the ability to respond to local needs. In developing and monitoring local Violence Against Women service systems and contracting with agencies, the Ministry will take into consideration the Provincial Auditor's concerns with respect to core program standards and agency performance by:

- ***ensuring that core services are consistently reflected in agency budget submissions, service descriptions, and data elements;***

- ***reviewing program staffing levels in agencies and assessing the feasibility of developing a program guideline regarding staffing levels and core competencies; and***
- ***periodically assessing services to determine that they are meeting ministry expectations.***

Quarterly Reporting

To monitor transfer-payment agencies' service delivery and expenditures during the year and to gather information for effective service planning, the Ministry requires the agencies to submit quarterly reports comparing actual to budgeted expenditures and providing information about services provided such as the number of days of residential care or number of hours of counselling. The Ministry also requires agencies to highlight and explain the reasons for planned-to-actual variances greater than 10% and to suggest an appropriate course of action.

Ministry regional office staff are expected to review the quarterly reports received and ensure that any corrective actions needed with respect to expenditures or service delivery are taken on a timely basis.

However, we found that the quarterly reporting process did not enable the Ministry to sufficiently monitor agencies' expenditures and service delivery for the following reasons:

- Agencies had insufficient ministry direction on how to report information about the services they provided. For example, which activities are to be reported under each quarterly-report service category has not been adequately communicated to service-delivery agencies. As a result, the information they did report was not consistent or detailed enough to serve the Ministry's purpose in collecting it.
- Many of the quarterly reports contained information that was internally inconsistent, incomplete or, in our view, otherwise questionable. For example:
    - one agency's quarterly reports indicated that it had planned to provide 3,900 hours of telephone crisis counselling for each of the 1998/99 and 1999/2000 fiscal years, even though the reports also indicated that it had actually provided over 70,000 hours of telephone crisis counselling in each of those two years. Although the number of hours actually provided in the 2000/01 fiscal year were not available at the time of our audit, we noted that the agency had again indicated that it planned to provide 3,900 hours of telephone crisis counselling annually.
- Many of the quarterly reports we reviewed did not highlight and explain the reasons for large variances or suggest an appropriate course of action as required.
- In most instances, we found no evidence to indicate that the Ministry had appropriately reviewed the quarterly reports it received or followed up to ensure that any necessary corrective action was being taken. For example, in the 1999/2000 fiscal year, one shelter reported being 51% under target for the number of days of residential care provided, 21% under target for the number of women served, and 37% under target for the number of children served. We found no evidence that the Ministry had even identified these issues as warranting follow-up or assessment as to their impact on agency funding decisions.

shelter was situated across the street from the district jail, a location that the Ministry indicated as being inappropriate.

Service Co-ordination: VAW service providers regularly interact with other service providers such as Children's Aid Societies (CASs) and the police.

Shelters and other service providers may have differing views of how certain situations are best handled. For example, while the CAS is primarily focused on the well-being of children, shelters advocate for abused women and their children, and the Ministry acknowledged that the two sectors sometimes have contrary views about remedies to situations of potential harm to involved children.

The Ministry has recognized the importance of a VAW/CAS protocol for the provision of their respective services and, in 1998, formed an advisory committee for the development of such a protocol with representatives from both sectors. Although the protocol was to be implemented in late 1999, at the time of our audit in March 2001, it was still not finalized. We noted that some shelters had delayed the development of their own protocols in anticipation of the provincial model.

Recommendation

To ensure that services provided by all transfer-payment agencies under the Violence Against Women program are of an acceptable and reasonably consistent quality standard and that they represent value for money spent, the Ministry should:

- **establish and communicate its expectations for acceptable quality standards of service in each of the following areas: core services to be provided; minimum staffing levels and staff qualifications; admission criteria; acceptable waiting times; the physical security of shelters; and service co-ordination with other providers; and**
- **periodically assess whether the services provided by agencies are meeting ministry expectations and take appropriate corrective action if necessary.**

Ministry Response

The Ministry acknowledges the need to develop a reasonable level of standardization across the Violence Against Women program in order to be more accountable for the value of the services purchased from agencies and to ensure consistent, quality service to recipients while maintaining the ability to respond to local needs. In developing and monitoring local Violence Against Women service systems and contracting with agencies, the Ministry will take into consideration the Provincial Auditor's concerns with respect to core program standards and agency performance by:

- ***ensuring that core services are consistently reflected in agency budget submissions, service descriptions, and data elements;***

F3

- ***reviewing program staffing levels in agencies and assessing the feasibility of developing a program guideline regarding staffing levels and core competencies; and***
- ***periodically assessing services to determine that they are meeting ministry expectations.***

Quarterly Reporting

To monitor transfer-payment agencies' service delivery and expenditures during the year and to gather information for effective service planning, the Ministry requires the agencies to submit quarterly reports comparing actual to budgeted expenditures and providing information about services provided such as the number of days of residential care or number of hours of counselling. The Ministry also requires agencies to highlight and explain the reasons for planned-to-actual variances greater than 10% and to suggest an appropriate course of action.

Ministry regional office staff are expected to review the quarterly reports received and ensure that any corrective actions needed with respect to expenditures or service delivery are taken on a timely basis.

However, we found that the quarterly reporting process did not enable the Ministry to sufficiently monitor agencies' expenditures and service delivery for the following reasons:

- Agencies had insufficient ministry direction on how to report information about the services they provided. For example, which activities are to be reported under each quarterly-report service category has not been adequately communicated to service-delivery agencies. As a result, the information they did report was not consistent or detailed enough to serve the Ministry's purpose in collecting it.
- Many of the quarterly reports contained information that was internally inconsistent, incomplete or, in our view, otherwise questionable. For example:
  - one agency's quarterly reports indicated that it had planned to provide 3,900 hours of telephone crisis counselling for each of the 1998/99 and 1999/2000 fiscal years, even though the reports also indicated that it had actually provided over 70,000 hours of telephone crisis counselling in each of those two years. Although the number of hours actually provided in the 2000/01 fiscal year were not available at the time of our audit, we noted that the agency had again indicated that it planned to provide 3,900 hours of telephone crisis counselling annually.
- Many of the quarterly reports we reviewed did not highlight and explain the reasons for large variances or suggest an appropriate course of action as required.
- In most instances, we found no evidence to indicate that the Ministry had appropriately reviewed the quarterly reports it received or followed up to ensure that any necessary corrective action was being taken. For example, in the 1999/2000 fiscal year, one shelter reported being 51% under target for the number of days of residential care provided, 21% under target for the number of women served, and 37% under target for the number of children served. We found no evidence that the Ministry had even identified these issues as warranting follow-up or assessment as to their impact on agency funding decisions.

Recommendation

To ensure that the quarterly reporting process for the Violence Against Women program enables effective monitoring of expenditures and service delivery during the year, the Ministry should:

- **provide direction to all agencies to ensure that they report financial and service information on a consistent basis;**
- **ensure that agencies explain and describe appropriate plans of action for all significant variances, as required; and**
- **promptly evaluate and, where warranted, approve any corrective action proposed and ensure that it is undertaken.**

Ministry Response

The Ministry acknowledges the need to improve its financial controls for holding agencies accountable for service quality and the use of public funds. Through the annual business cycle, regional offices will duly instruct service providers, monitor for significant variances, and intervene to ensure appropriate corrective action is taken as necessary.

Serious Occurrences

All agencies are required to report verbally to the Ministry within 24 hours all serious occurrences that meet the Ministry's criteria for such incidents. In addition, an agency's written follow-up report detailing the corrective action taken, or to be taken, is to be received by the Ministry within seven working days of an incident. Ministry staff are to review the written follow-up reports to ensure that the corrective actions taken or proposed are appropriate in the circumstances.

We reviewed a sample of serious occurrences at the three regional offices and the agencies we visited and noted that, in general, written follow-up reports had been reviewed and the corrective action taken or proposed had been approved by the Ministry. However, we also noted the following:

- Ministry criteria for what constitutes a reportable serious occurrence were inconsistently applied. For example, at one regional office an agency reported two separate incidents in which the same child sustained a head injury, while at another regional office an agency did not report either of two incidents involving head injuries to another child.
- Two of the three regional offices did not log all verbal notifications of serious occurrences, and, therefore, could not be assured that all required written follow-up reports were received as required.

Corrective action cannot be taken if there is inadequate information about serious occurrences.

Recommendation

To enhance the effectiveness of the serious-occurrence reporting-and-review process for agencies funded under the Violence Against Women program, the Ministry should ensure that:

- **agencies have a clear understanding of how the criteria for serious occurrences are to be applied;**
- **all verbal notifications of serious occurrences are logged so that it can reliably determine whether written follow-up reports are received as required; and**
- **appropriate corrective action is taken as a result of all serious occurrences that take place.**

Ministry Response

Regional offices oversaw the implementation of the Ministry's updated Serious Occurrence Guidelines at agencies in the summer of 2000. Current requirements include timely reporting and action by service providers and follow-up by ministry staff as needed.

The Ministry acknowledges the need for continued review and improvement of serious-occurrence reporting and will take into account the concerns raised by the Provincial Auditor by:

- ***having regional offices reinforce serious-occurrence reporting expectations with agencies;***
- ***reviewing and/or revising the notification and follow-up process (including requiring the logging of verbal notifications) to ensure all serious occurrences are logged and responded to in a timely fashion; and***
- ***implementing sanctions where corrective action is required.***

TRANSFER-PAYMENT AGENCY ACCOUNTABILITY AND GOVERNANCE

Transfer-payment agencies providing program services are governed by independent, volunteer boards of directors that have considerable discretion in the way they manage and deliver their programs. As such, they are not required to follow the many administrative policies and procedures that are prescribed for the Ministry itself. However, because the bulk of their funding is provided by the Ministry, and ultimately by provincial taxpayers, the Ministry must hold these agencies accountable for their prudent use of public funds.

To facilitate an effective accountability relationship, the Ministry has developed a new ministry-wide governance and accountability framework for its transfer-payment agencies based on the mandatory requirements of the Management Board Directive on Transfer Payment Accountability. The approval of this framework by senior ministry management in June 1999 was an important first step. The second step—its implementation across the Ministry—was

Recommendation

To ensure that the quarterly reporting process for the Violence Against Women program enables effective monitoring of expenditures and service delivery during the year, the Ministry should:

- **provide direction to all agencies to ensure that they report financial and service information on a consistent basis;**
- **ensure that agencies explain and describe appropriate plans of action for all significant variances, as required; and**
- **promptly evaluate and, where warranted, approve any corrective action proposed and ensure that it is undertaken.**

Ministry Response

The Ministry acknowledges the need to improve its financial controls for holding agencies accountable for service quality and the use of public funds. Through the annual business cycle, regional offices will duly instruct service providers, monitor for significant variances, and intervene to ensure appropriate corrective action is taken as necessary.

Serious Occurrences

All agencies are required to report verbally to the Ministry within 24 hours all serious occurrences that meet the Ministry's criteria for such incidents. In addition, an agency's written follow-up report detailing the corrective action taken, or to be taken, is to be received by the Ministry within seven working days of an incident. Ministry staff are to review the written follow-up reports to ensure that the corrective actions taken or proposed are appropriate in the circumstances.

We reviewed a sample of serious occurrences at the three regional offices and the agencies we visited and noted that, in general, written follow-up reports had been reviewed and the corrective action taken or proposed had been approved by the Ministry. However, we also noted the following:

- Ministry criteria for what constitutes a reportable serious occurrence were inconsistently applied. For example, at one regional office an agency reported two separate incidents in which the same child sustained a head injury, while at another regional office an agency did not report either of two incidents involving head injuries to another child.
- Two of the three regional offices did not log all verbal notifications of serious occurrences, and, therefore, could not be assured that all required written follow-up reports were received as required.

Corrective action cannot be taken if there is inadequate information about serious occurrences.

Recommendation

To enhance the effectiveness of the serious-occurrence reporting-and-review process for agencies funded under the Violence Against Women program, the Ministry should ensure that:

- **agencies have a clear understanding of how the criteria for serious occurrences are to be applied;**
- **all verbal notifications of serious occurrences are logged so that it can reliably determine whether written follow-up reports are received as required; and**
- **appropriate corrective action is taken as a result of all serious occurrences that take place.**

Ministry Response

Regional offices oversaw the implementation of the Ministry's updated Serious Occurrence Guidelines at agencies in the summer of 2000. Current requirements include timely reporting and action by service providers and follow-up by ministry staff as needed.

The Ministry acknowledges the need for continued review and improvement of serious-occurrence reporting and will take into account the concerns raised by the Provincial Auditor by:

- ***having regional offices reinforce serious-occurrence reporting expectations with agencies;***
- ***reviewing and/or revising the notification and follow-up process (including requiring the logging of verbal notifications) to ensure all serious occurrences are logged and responded to in a timely fashion; and***
- ***implementing sanctions where corrective action is required.***

TRANSFER-PAYMENT AGENCY ACCOUNTABILITY AND GOVERNANCE

Transfer-payment agencies providing program services are governed by independent, volunteer boards of directors that have considerable discretion in the way they manage and deliver their programs. As such, they are not required to follow the many administrative policies and procedures that are prescribed for the Ministry itself. However, because the bulk of their funding is provided by the Ministry, and ultimately by provincial taxpayers, the Ministry must hold these agencies accountable for their prudent use of public funds.

To facilitate an effective accountability relationship, the Ministry has developed a new ministry-wide governance and accountability framework for its transfer-payment agencies based on the mandatory requirements of the Management Board Directive on Transfer Payment Accountability. The approval of this framework by senior ministry management in June 1999 was an important first step. The second step—its implementation across the Ministry—was

proceeding on a program-by-program basis but had not occurred for this program at the time of our audit in early 2001.

As a result, we found that with respect to the mandatory requirements for agency accountability:

- explicit and measurable expectations and service standards were often not defined;
- reporting and monitoring of results achieved were not adequate; and
- situations requiring corrective action were often not clearly identified, which resulted in needed corrective action not being taken.

With respect to the mandatory requirements for promoting good agency governance, we found that the Ministry had not ensured that:

- agency management and the board of directors collectively had the necessary expertise and experience to discharge their responsibilities effectively;
- operating policies and procedures were adequate to ensure that service delivery was achieved economically, efficiently, and effectively; and
- internal governance and reporting structures for both financial and service information were appropriate.

Recommendation

The Ministry should improve the governance and accountability of Violence Against Women agencies by implementing the requirements of its Governance and Accountability Framework.

Ministry Response

The Ministry has distributed an Accountability and Governance Framework to its transfer-payment agencies that meets or exceeds Management Board requirements. For example, as part of the framework, the 2001/02 budget package includes a new requirement regarding the capacity of agency boards.

The Ministry acknowledges the need to enhance agency accountability and will, in the next year, complete the process of confirming with its transfer-payment agencies that the new framework's requirements are incorporated into the annual business cycle. For example, a sectoral framework that outlines basic requirements for transfer-payment agencies will be finalized and distributed to ministry regional offices and transfer-payment agencies in the spring of 2002.

PROGRAM FUNDING

For a number of years, we have expressed concerns about the way the Ministry funds many of its transfer-payment programs. For example, in the section on Governance and Accountability of Transfer Payment Recipients in our *1997 Annual Report*, we had recommended that, to help ensure that funding is equitable and appropriate for each agency, the Ministry critically assess proceeding on a program-by-program basis but had not occurred for this program at the time of our audit in early 2001.

As a result, we found that with respect to the mandatory requirements for agency accountability:

- explicit and measurable expectations and service standards were often not defined;
- reporting and monitoring of results achieved were not adequate; and
- situations requiring corrective action were often not clearly identified, which resulted in needed corrective action not being taken.

With respect to the mandatory requirements for promoting good agency governance, we found that the Ministry had not ensured that:

- agency management and the board of directors collectively had the necessary expertise and experience to discharge their responsibilities effectively;
- operating policies and procedures were adequate to ensure that service delivery was achieved economically, efficiently, and effectively; and
- internal governance and reporting structures for both financial and service information were appropriate.

Recommendation

The Ministry should improve the governance and accountability of Violence Against Women agencies by implementing the requirements of its Governance and Accountability Framework.

Ministry Response

The Ministry has distributed an Accountability and Governance Framework to its transfer-payment agencies that meets or exceeds Management Board requirements. For example, as part of the framework, the 2001/02 budget package includes a new requirement regarding the capacity of agency boards.

The Ministry acknowledges the need to enhance agency accountability and will, in the next year, complete the process of confirming with its transfer-payment agencies that the new framework's requirements are incorporated into the annual business cycle. For example, a sectoral framework that outlines basic requirements for transfer-payment agencies will be finalized and distributed to ministry regional offices and transfer-payment agencies in the spring of 2002.

PROGRAM FUNDING

For a number of years, we have expressed concerns about the way the Ministry funds many of its transfer-payment programs. For example, in the section on Governance and Accountability of Transfer Payment Recipients in our *1997 Annual Report*, we had recommended that, to help ensure that funding is equitable and appropriate for each agency, the Ministry critically assess requests for funding and ensure that the amounts approved are commensurate with the demand for services and the actual services provided. The Ministry agreed with our recommendation and indicated that it would document any changes in demand for services when making its annual funding decisions. However, we found that the recommendation the Ministry had agreed to in 1997 had not been implemented with respect to the Violence Against Women program. Our specific concerns in this area are detailed below.

Funding for Shelter Services

Prior to 1998, the cost of providing shelter for women who had experienced violence or abuse and their children was shared on an 80:20 basis between the Ministry and municipalities, respectively, based on a maximum allowable per diem cost of $34.50 per person occupying a bed. The Ministry's share of funding was provided to municipalities that, in turn, contracted with and provided funding to the agencies operating shelters.

As a result of the government's Local Services Realignment initiative, the Ministry assumed responsibility for 100% of government funding for VAW shelters beginning in January 1998.

We were informed that, as a result of this change, the Ministry's nine regional offices received funding allocations for VAW shelters for 1998 and subsequent years based on the highest annual funding provided to each of the shelters in their jurisdictions over the five-year period from 1992 to 1996. The Ministry recognized that this method of allocating funding to regional offices might result in some regional offices receiving a higher allocation than required.

Two of the three regional offices we visited, in turn, provided annual funding in block amounts to each of their shelters based on the highest amount of annual funding that each shelter received under the per diem method of funding from 1992 to 1996. The third regional office was of the view that this method of funding was not appropriate and instead funded its agencies for 1998 and later years based primarily on the amount of funding each shelter received in the 1996/97 fiscal year. While this method would be more likely than the first to relate funding to the actual amount of services being delivered, neither of these funding methods is appropriate because:

- shelter occupancy levels and resultant costs can fluctuate significantly from year to year;
- the per diem method used prior to 1998 did not reflect a shelter's actual costs or funding needs; and
- total per diem funding provided in prior years did not always reflect actual shelter use because some municipalities paid less than the maximum allowable per diem rate and others limited the number of days for which a per diem would be paid regardless of how long women actually stayed at the shelter.

We also noted that the Ministry did not always have reliable information about how much funding each shelter received in each of the years from 1992 to 1996 and consequently often had to rely on municipalities and the shelters themselves to provide that information.

Based on ministry information, we determined that the average costs of shelter services for each of the nearly 100 shelters funded by the Ministry in the 1999/2000 fiscal year varied significantly, as detailed in the following table.

Range of Average Shelter Costs, 1999/2000

average cost per person served	$363–$5,981
average annual cost per available bed	$15,424–$60,403
average cost per person per day of residential care	$47–$658

Source of data: Ministry of Community and Social Services

We noted that some of these cost differences were attributable to variances in shelter occupancy rates, which ranged from an average of less than 30% over the year in some cases to well over 100% in others. However, the Ministry had not assessed the possibility of reducing these cost differences either by changing the way shelters are funded or by restructuring shelter services in areas with chronically low occupancy rates and reallocating funding to shelters facing a heavier demand for services.

The 1998 Coroner's Report on the *Inquest into the Deaths of Arlene May and Randy Iles* recommended that the Ministry review its funding for shelters for abused women and their children. In 1999, in response to the Coroner's recommendation, the Ministry indicated that assuming the municipal share of per diems and block funding shelters after January 1, 1998 was sufficient to address the recommendation. However, based on our work, it is clear that the Ministry's current method of funding does not ensure appropriate and equitable funding for shelters that is linked to an assessed level of demand and to services provided in the respective communities.

Funding for Counselling and Other VAW Services

The Ministry has always fully funded the cost of counselling and other types of VAW services provided both by agencies that operate a shelter and those that do not. The amount of funding approved annually and provided directly to each agency is based on the agency's Service Budget Submission request, which includes information about the amount of funding requested and descriptions of the services to be provided. Regional office staff are expected to review these requests and approve annual funding amounts, taking into consideration other available information, such as the previous year's funding surpluses or deficits, cost comparisons with similar programs, and expected changes in caseloads.

However, we found that the service descriptions included in the Service Budget Submissions did not provide sufficiently detailed or relevant information on which to base informed funding decisions. For example, none of the submissions we reviewed contained information about the duration or nature of counselling services to be provided, even though such information is essential for determining the reasonableness of the funding requested. As a result, there was little, if any, evidence that the amount of funding approved was based on an assessment of what a reasonable level of funding would be in relation to costs of the services to be provided.

Instead, the Ministry generally approved funding for agencies in amounts that were the same or similar to the amounts approved in the previous year. Even in those cases where some funding was reallocated, the Ministry could not demonstrate the basis or reasonableness of the reallocations.

Based on information provided to us by the Ministry, we also determined that the average cost of similar ministry-funded services in the 1999/2000 fiscal year varied significantly, as detailed in the following table.

Average Costs of Similar Services, 1999/2000

Service	Average Cost Per Person Served	Average Cost Per Hour of Service*
crisis support	$19–$2,046	$3–$321
crisis telephone counselling	$1–$135	$1–$196
general counselling	$69–$1,668	$6–$270
sexual assault counselling	$38–$1,337	$6–$218

*Calculated as "reported expenditure by service code" divided by "number of hours of service reported".

Source of data: Ministry of Community and Social Services

Although certain of the cost ranges identified may put the costing data in question, the ministry data from which these costs were determined constitute the only information the Ministry had.

We also noted that:

- The Ministry had not defined a reasonable range of realistic costs for services.
- During the 2000/01 fiscal year, the Ministry added the Child Witness of Domestic Violence and Transitional Support programs to its VAW program. For that year, the Ministry allocated a total of $10 million in funding for the new programs and spent $9.4 million without adequately determining the extent to which the services were already being provided or assessing regional or agency needs. For example, in many cases, agencies received a year's worth of funding for these programs even though services were provided for only four to six months during that year. For the three regions we visited, this funding procedure resulted in overpayments totalling $1 million.
- The Ministry provided one-time funding for a number of Y2K-related expenditures that we found were unrelated to Y2K or were otherwise questionable. For example:
  - One agency spent $5,600 of Y2K funding for baby monitors and security cameras and $2,500 of Y2K funding for a fence alarm.
  - In November 1999, an agency contracted to purchase a generator for $94,000 that was installed in February 2000, after the Y2K risk had passed. We also noted that the price agreed to in November 1999 was significantly higher than what that or a similar generator could have been purchased for in February 2000.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Recommendation

To help ensure that funding for services under the Violence Against Women program is commensurate with the specific needs of each agency, the Ministry should:

- **ensure that agency funding requests provide information that is sufficiently detailed and relevant to allow the Ministry to make informed funding decisions; and**
- **critically assess all requests for funding and ensure that amounts approved are commensurate with the demand for services and the actual services provided.**

Ministry Response

Ministry financial policies for transfer-payment agencies require the annual negotiation of agency budgets based on a review of service data and the setting of appropriate service targets.

The Ministry recognizes the need to improve the quality and timely use of such information. As part of the annual business cycle, regional offices will ensure that information in agency budgets is of the required quality and has the required level of detail.

Annual Program Expenditure Reconciliations

Transfer-payment recipients that receive more than $75,000 in annual funding from the Ministry are required to complete an Annual Program Expenditure Reconciliation (APER) and submit it to the Ministry together with audited financial statements. The purpose of the APER is to reconcile program expenditures with the funding provided by the Ministry in order to identify inappropriate or ineligible expenditures and any surplus funding that should be recovered by the Ministry.

For a number of years, in our reports on the audits of other ministry transfer-payment programs, we have expressed concerns about the untimeliness and ineffectiveness of the APER process in meeting its objectives. Although we found in this audit that APERs for the VAW agencies we reviewed generally had been received and reviewed by the Ministry on a timely basis, based on our review, we were still concerned that the APER process was ineffective for the reasons noted below:

- Eligible program expenditures had not been clearly defined by the Ministry. As a consequence, agencies were inconsistent in their interpretations of what constituted eligible expenditures. For example, while some agencies requested and received approval to fund minor capital expenditures for such things as wall and roof repairs or fencing from operating surpluses, other agencies routinely included such expenditures in their APER-reported program operating costs.

- Both the APER and the accompanying audited financial statements often lacked the detail necessary to identify inappropriate or ineligible expenditures and to permit the reconciliation of the APER-reported expenditures with the audited financial statements.
- In a number of instances, the Ministry's APER review process did not identify ineligible expenditures or detect funding surpluses that should have been recovered. For example, our limited review of a sample of APERs detected the following:
  - One agency claimed $156,000 of ineligible costs as an expense on its APER. The claim went undetected and the amount was not identified for potential recovery.
  - Another agency failed to deduct $122,000 in revenue received from the federal government from its APER-reported expenditures as required. As a result, the Ministry did not identify or recover the agency's resulting funding surplus.
  - Another agency claimed the same $20,000 as an eligible expense twice, once when the funds were transferred internally to another program and again when they were spent.

We also noted an instance of an agency receiving $40,700 from the Ministry to fund an operating deficit for the 1999/2000 fiscal year, even though it had an operating surplus of $37,500 in a previous year that had not been recovered.

Recommendation

To better ensure that the Annual Program Expenditure Reconciliation (APER) process for the Violence Against Women program identifies both inappropriate and ineligible expenditures, as well as surpluses, and better supports future funding decisions, the Ministry should:

- **clearly define eligible program expenditures and communicate that information to agencies;**
- **ensure that agencies provide financial information in their APERs that is sufficiently detailed and linkable to audited financial statements; and**
- **thoroughly review the information submitted in APERs and perform any necessary follow-up.**

Ministry Response

In order to facilitate surplus recovery and expenditure adjustment in advance of further budget negotiation, ministry financial policies require that agencies:

- ***report significant variances and potential surpluses by the third quarter; and***
- ***complete reconciliation accounting within four months of the end of the fiscal year.***

Agencies are required to provide expenditure information consistent with the Ministry's global budgeting approach.

The Ministry acknowledges the need for continued improvement in this area and will duly consider the concerns raised in the Provincial Auditor's

Recommendation

To help ensure that funding for services under the Violence Against Women program is commensurate with the specific needs of each agency, the Ministry should:

- **ensure that agency funding requests provide information that is sufficiently detailed and relevant to allow the Ministry to make informed funding decisions; and**
- **critically assess all requests for funding and ensure that amounts approved are commensurate with the demand for services and the actual services provided.**

Ministry Response

Ministry financial policies for transfer-payment agencies require the annual negotiation of agency budgets based on a review of service data and the setting of appropriate service targets.

The Ministry recognizes the need to improve the quality and timely use of such information. As part of the annual business cycle, regional offices will ensure that information in agency budgets is of the required quality and has the required level of detail.

Annual Program Expenditure Reconciliations

Transfer-payment recipients that receive more than $75,000 in annual funding from the Ministry are required to complete an Annual Program Expenditure Reconciliation (APER) and submit it to the Ministry together with audited financial statements. The purpose of the APER is to reconcile program expenditures with the funding provided by the Ministry in order to identify inappropriate or ineligible expenditures and any surplus funding that should be recovered by the Ministry.

For a number of years, in our reports on the audits of other ministry transfer-payment programs, we have expressed concerns about the untimeliness and ineffectiveness of the APER process in meeting its objectives. Although we found in this audit that APERs for the VAW agencies we reviewed generally had been received and reviewed by the Ministry on a timely basis, based on our review, we were still concerned that the APER process was ineffective for the reasons noted below:

- Eligible program expenditures had not been clearly defined by the Ministry. As a consequence, agencies were inconsistent in their interpretations of what constituted eligible expenditures. For example, while some agencies requested and received approval to fund minor capital expenditures for such things as wall and roof repairs or fencing from operating surpluses, other agencies routinely included such expenditures in their APER-reported program operating costs.

- Both the APER and the accompanying audited financial statements often lacked the detail necessary to identify inappropriate or ineligible expenditures and to permit the reconciliation of the APER-reported expenditures with the audited financial statements.
- In a number of instances, the Ministry's APER review process did not identify ineligible expenditures or detect funding surpluses that should have been recovered. For example, our limited review of a sample of APERs detected the following:
  - One agency claimed $156,000 of ineligible costs as an expense on its APER. The claim went undetected and the amount was not identified for potential recovery.
  - Another agency failed to deduct $122,000 in revenue received from the federal government from its APER-reported expenditures as required. As a result, the Ministry did not identify or recover the agency's resulting funding surplus.
  - Another agency claimed the same $20,000 as an eligible expense twice, once when the funds were transferred internally to another program and again when they were spent.

We also noted an instance of an agency receiving $40,700 from the Ministry to fund an operating deficit for the 1999/2000 fiscal year, even though it had an operating surplus of $37,500 in a previous year that had not been recovered.

Recommendation

To better ensure that the Annual Program Expenditure Reconciliation (APER) process for the Violence Against Women program identifies both inappropriate and ineligible expenditures, as well as surpluses, and better supports future funding decisions, the Ministry should:

- **clearly define eligible program expenditures and communicate that information to agencies;**
- **ensure that agencies provide financial information in their APERs that is sufficiently detailed and linkable to audited financial statements; and**
- **thoroughly review the information submitted in APERs and perform any necessary follow-up.**

Ministry Response

In order to facilitate surplus recovery and expenditure adjustment in advance of further budget negotiation, ministry financial policies require that agencies:

- ***report significant variances and potential surpluses by the third quarter; and***
- ***complete reconciliation accounting within four months of the end of the fiscal year.***

Agencies are required to provide expenditure information consistent with the Ministry's global budgeting approach.

The Ministry acknowledges the need for continued improvement in this area and will duly consider the concerns raised in the Provincial Auditor's

assessment of the efficacy of the APER process. For example, the 2001/02 APER package will include updated definitions of ineligible agency expenditures. The Ministry is also considering a requirement that agencies formally certify that their statements comply with ministry expenditure policies.

OTHER MATTER

PERFORMANCE REPORTING

The Ministry has initiated a new system for evaluating the performances of the various VAW programs that gathers information directly from program recipients.

Questionnaires are to be filled out by women receiving VAW services, and the information on the completed questionnaires is to be entered into a province-wide database by agency staff. The information collected in the database is to be analyzed by the Ministry.

The 2000/01 fiscal year is the first year for which surveys are to be completed, and results were thus unavailable at the time of our audit.

The Ministry's efforts in this area notwithstanding, we noted some deficiencies in the design of the new system that, if not remedied, will likely reduce the reliability and usefulness of results as measures of program effectiveness:

- Questionnaires are to be completed by women while they are using agency services and then returned to agency staff for entry into the database. This situation creates a potential conflict of interest for both the women who complete the questionnaires and agency staff. Consequently, the Ministry will have less assurance of the reliability and completeness of reported results than if the questionnaires had been sent to the Ministry directly by service users.
- The Ministry had no measurable criteria or benchmarks in place for evaluating questionnaire results.

We will follow up on the results of this new performance evaluation system at an appropriate time.

assessment of the efficacy of the APER process. For example, the 2001/02 APER package will include updated definitions of ineligible agency expenditures. The Ministry is also considering a requirement that agencies formally certify that their statements comply with ministry expenditure policies.

OTHER MATTER

PERFORMANCE REPORTING

The Ministry has initiated a new system for evaluating the performances of the various VAW programs that gathers information directly from program recipients.

Questionnaires are to be filled out by women receiving VAW services, and the information on the completed questionnaires is to be entered into a province-wide database by agency staff. The information collected in the database is to be analyzed by the Ministry.

The 2000/01 fiscal year is the first year for which surveys are to be completed, and results were thus unavailable at the time of our audit.

The Ministry's efforts in this area notwithstanding, we noted some deficiencies in the design of the new system that, if not remedied, will likely reduce the reliability and usefulness of results as measures of program effectiveness:

- Questionnaires are to be completed by women while they are using agency services and then returned to agency staff for entry into the database. This situation creates a potential conflict of interest for both the women who complete the questionnaires and agency staff. Consequently, the Ministry will have less assurance of the reliability and completeness of reported results than if the questionnaires had been sent to the Ministry directly by service users.
- The Ministry had no measurable criteria or benchmarks in place for evaluating questionnaire results.

We will follow up on the results of this new performance evaluation system at an appropriate time.

MINISTRY OF EDUCATION

3.06–Special Education Grants to School Boards

BACKGROUND

There were about 2 million students enrolled in Ontario's publicly funded schools in the fall of 2000, of whom over 260,000, or 12.5%, were receiving special education programs and services. Students may be identified as requiring such programs and services either formally or informally. Under the *Education Act*, students formally identified are described as exceptional by an Identification, Placement and Review Committee (IPRC). The *Education Act* defines an exceptional pupil as one "whose behavioural, communicational, intellectual, physical, or multiple exceptionalities are such that he or she is considered to need placement in a special education program."

Some school boards, in consultation with parents, provide special education programs and services for students without referring them to an IPRC to determine if they are exceptional or not. Notwithstanding this practice, boards are required to refer a student to an IPRC at the request of a principal or, through the principal, at the request of a parent.

The strengths and needs of students with special needs vary widely. At one extreme are students who are gifted, while at the other are students requiring very intensive supports. Students whose only needs are physical, such as those with sight or motor disabilities, may be quite capable of meeting provincial grade-level curriculum and achievement expectations with appropriate accommodations such as access to assistive equipment or resources. The majority of students with special needs, however, require accommodations as well as some modification to the curriculum to help them progress.

For the school year ending August 31, 2001, the Ministry of Education provided special education grants to school boards in the amount of $1.36 billion. This funding represented about 10% of the $13.6 billion that school boards were expected to receive for that year. Most funding to school boards is based on total enrolment and is intended to cover the common basic costs of all students, including students with special needs. Special education grants are intended to cover only the incremental costs of educating students with special needs.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess the adequacy of the Ministry's procedures for ensuring that:

- school boards comply with special education legislation, regulations, and policies; and
- sufficient, appropriate, and reliable financial and performance information is reported to enable the Ministry and school boards to assess the extent to which special education programs and services:
  - meet exceptional students' needs; and
  - are delivered economically and efficiently.

Our audit was conducted in accordance with professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such procedures as we considered necessary in the circumstances.

Our work at the Ministry focused on special education grants administration activities conducted by the Elementary/Secondary Business and Finance Division and on policy development activities conducted by the Special Education Project within the Ministry's Strategic Planning and Elementary/Secondary Programs Division. However, we needed to obtain an understanding of how school boards administer their special education programs and services in order to address our audit objectives. We therefore visited four English-language school boards to review their special education programs, services, policies, and procedures and to interview a sample of educators and parents of children with special needs. We interviewed over 300 parents, administrators, principals, teachers, and support staff, including special education resource teachers, psychologists, speech and language pathologists, social workers, and special education assistants. We also met with representatives of several advisory and advocacy groups for students with special needs.

The criteria we applied to perform our assessment and to reach our conclusions were agreed to by senior management at the Ministry and the school boards that we visited.

The Ministry's Internal Audit Services Branch had not done any recent work that would allow us to reduce the extent of our work.

Our fieldwork was carried out from September 2000 to April 2001.

OVERALL AUDIT CONCLUSIONS

Currently the accountability framework for special education grants and the delivery of special education services is evolving. The Ministry has a multi-year plan and has taken a number of steps and initiatives to design a system for the provision of special education grants and services. However, presently, the Ministry and school boards do not have the information and processes to determine whether special education services are delivered effectively, efficiently, and in compliance with requirements. In particular, we noted the following:

- The Individual Education Plans that schools are required to prepare for each student with special needs met neither the requirements of Regulation 181/98 under the *Education Act* nor the suggestions for good practice in the Ministry's *Individual Education Plan (IEP) Resource Guide (1998)*.

- Neither the Ministry nor school boards had established the quality-assurance processes necessary to ensure compliance with the *Act*'s requirements that all exceptional students have available to them appropriate programs and services and that they receive them in a timely manner.
- The main concerns of the many educators we interviewed were insufficient numbers of teacher assistants and experienced special education resource teachers. As a result, the educators believed that many of their students were not getting the support they required.
- The Ministry's standards for school-board special education plans do not require that trustees establish measurable performance targets for school-board management so that their effectiveness in providing service to students with special needs can be determined.
- Several educators we interviewed were also concerned that teacher education did not adequately prepare the many new teachers entering Ontario's education system to meet the demands of delivering special education programs and services, although significant reforms were underway.
- The Ministry did not have procedures in place to ensure that school boards provide comparable and reliable information about their special education expenditures in order to facilitate meaningful analysis and support funding decisions.
- The information available on school-board spending by activity or program is insufficient for management at school boards to manage costs effectively. As a result, the Ministry, trustees, Special Education Advisory Committees, and parents cannot assess how effectively management has spent special education funds, nor can we provide any reasonable assurance in this regard.

Because of their ongoing relevance to our audit, we also noted (see Appendix) the status of the 15 recommendations made in 1994 by the Standing Committee on Public Accounts, which were based on the audit of special education in our *1993 Annual Report*. In summary:

- four recommendations had been implemented;
- progress had been made and was ongoing on six recommendations; and
- five recommendations had not been implemented.

We have made further recommendations on these issues in this report.

We noted that since our last audit, the Ministry has introduced major changes to Ontario's education system that were intended to improve its equity, quality, efficiency, and accountability. The most significant changes aimed specifically at programs and services provided to students with special needs began to be implemented in 1998 and are ongoing. For example, special education funding reform was first introduced for the 1998/99 school year and has been undergoing refinements that the Ministry expects to complete in 2003. Initiatives to set standards for the administration and delivery of special education programs and services were announced in January 2000 and were planned for completion by the end of 2002.

Managing the scale and pace of these changes has been a significant challenge for the Ministry and school boards.

DETAILED AUDIT OBSERVATIONS

INDIVIDUAL EDUCATION PLANS

Regulation 181/98 requires that, within 30 school days of a student's placement in a special education program as determined by an IPRC, an Individual Education Plan (IEP) be prepared for the student. For students returning to a special education program in September, IEPs must be prepared within 30 school days of the start of the school year.

IEPs must be discussed with and signed by parents/guardians and, where the student is 16 years of age or older, by the student. Principals also sign IEPs, as under regulation they are responsible for the quality and implementation of IEPs.

IEPs are critical documents in that they are to specify learning expectations for the student, as well as any accommodations necessary to enable the achievement of those expectations. The learning expectations for most students are based on the regular provincial curriculum but are drawn from lower grade levels than those of the students' age peers or, for gifted students, are extended. Some students work on an entirely alternative curriculum, such as an alternative life-skills curriculum.

Compliance with Guidelines and Standards

The Ministry issued guidelines for good practice in developing IEPs in 1998 to help boards comply with the *Education Act* and regulations. In 2000, it issued standards to provide policy direction for boards' development of IEPs. The boards that we visited advised us that they intended to be in compliance with the standards for the 2001/02 school year.

In our review of the IEPs prepared in 2000 for the students in our sample, we noted a number of instances in which the IEPs did not meet the 1998 good-practice guidelines, including the following:

- The amounts and types of supports/services to be provided to the student were not stated. We were told that schools did not want to promise more than they could deliver due to the risk of legal action by parents if boards lacked the resources to fully provide the stated services and supports.
- Learning expectations were often vague and not measurable. Clear expectations are needed to help focus the efforts of the teacher, student, and parent and to facilitate objective assessment of actual progress against planned progress.
- The dates that expectations were updated were not stated in the IEPs. This information would assist parents and school personnel who dealt with a student for the first time to gain an understanding of the student's rate of progress over several terms.
- Accommodations required to help the student achieve the established expectations were not specific. For example, a common accommodation was "extra time to complete assignments," with no indication of how much extra time was appropriate, given past experience with the student, or had previously been given. Specificity is particularly important to facilitate reliable and fair assessment of student performance, such as in examination writing and provincial testing.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

- Instructional strategies and materials that worked particularly well were not noted.
- Other useful information suggested in the Ministry's guidelines was missing, such as a summary of the relevant health information in the student's file, the grade level the student was currently performing at, and the names of the school personnel who were involved in developing the IEP.

We also noted that only 17% of the IEPs in our sample were completed within 30 school days of the start of the school year as required by regulation. Principals and special education teachers told us that preparing a good-quality IEP for every student within the 30-day period was not realistic, particularly in the case of students attending a school for the first time.

However, if IEPs are not done in a timely fashion, their effectiveness is greatly reduced. Valuable time may be lost over the first few months of each year while a new teacher gains familiarity with the student's abilities and learning style. It may be better for the student if at least portions of each IEP for the first term of a school year were prepared during the preceding May/June period. Much of the profile and progress information needed for the IEP is gathered at that time in preparation for the annual meeting at which students' placements are reviewed. Teachers receiving students in September could complete or modify the IEPs after the end of the first term or earlier, as appropriate. Alternatively, boards should at least ensure that teachers review the profile and progress information on file very early in the school year.

Given the many deficiencies in the IEPs we reviewed, it is important to have procedures to ensure that the new standards are followed. This could involve establishing a compliance-verification process and providing boards with examples of good IEPs for different types of exceptionalities. At two of the schools we visited, we noted one result of not having such procedures in place: IEPs had not been prepared for some time, and only when new principals were assigned to the schools was this detected. Despite intense efforts to complete the IEPs, there were still many exceptional students without IEPs at both schools at the time of our visits.

The Ministry advised us that in July 2001, it conducted a review of a sample of IEPs from a random sample of one-third of the province's school boards. The purpose of the review was to assess compliance with the new standards and to provide boards with appropriate feedback.

Recommendation

To help ensure that the services students need to make satisfactory progress are timely and appropriate and that school boards comply with legislation, regulations, and policies, the Ministry should:

- **use the results of their planned compliance-verification work to provide boards with examples of successful practices for timely and effective preparation of Individual Education Plans; and**
- **require school boards to establish compliance-monitoring procedures and report the results of their work.**

Ministry Response

Through the already established cycle of Individual Education Plan review and audit, we will identify best practices as these relate to Individual Education

- Instructional strategies and materials that worked particularly well were not noted.
- Other useful information suggested in the Ministry's guidelines was missing, such as a summary of the relevant health information in the student's file, the grade level the student was currently performing at, and the names of the school personnel who were involved in developing the IEP.

We also noted that only 17% of the IEPs in our sample were completed within 30 school days of the start of the school year as required by regulation. Principals and special education teachers told us that preparing a good-quality IEP for every student within the 30-day period was not realistic, particularly in the case of students attending a school for the first time.

However, if IEPs are not done in a timely fashion, their effectiveness is greatly reduced. Valuable time may be lost over the first few months of each year while a new teacher gains familiarity with the student's abilities and learning style. It may be better for the student if at least portions of each IEP for the first term of a school year were prepared during the preceding May/June period. Much of the profile and progress information needed for the IEP is gathered at that time in preparation for the annual meeting at which students' placements are reviewed. Teachers receiving students in September could complete or modify the IEPs after the end of the first term or earlier, as appropriate. Alternatively, boards should at least ensure that teachers review the profile and progress information on file very early in the school year.

Given the many deficiencies in the IEPs we reviewed, it is important to have procedures to ensure that the new standards are followed. This could involve establishing a compliance-verification process and providing boards with examples of good IEPs for different types of exceptionalities. At two of the schools we visited, we noted one result of not having such procedures in place: IEPs had not been prepared for some time, and only when new principals were assigned to the schools was this detected. Despite intense efforts to complete the IEPs, there were still many exceptional students without IEPs at both schools at the time of our visits.

The Ministry advised us that in July 2001, it conducted a review of a sample of IEPs from a random sample of one-third of the province's school boards. The purpose of the review was to assess compliance with the new standards and to provide boards with appropriate feedback.

Recommendation

To help ensure that the services students need to make satisfactory progress are timely and appropriate and that school boards comply with legislation, regulations, and policies, the Ministry should:

- **use the results of their planned compliance-verification work to provide boards with examples of successful practices for timely and effective preparation of Individual Education Plans; and**
- **require school boards to establish compliance-monitoring procedures and report the results of their work.**

Ministry Response

Through the already established cycle of Individual Education Plan review and audit, we will identify best practices as these relate to Individual Education

Plans. We will assess and introduce appropriate compliance and monitoring procedures.

Supporting Service Decisions

In the student files we examined, it was often difficult to determine the rationale for the service decisions that formed the basis of students' IEPs. There were no summaries of the information and discussions underlying those decisions. For example, we could not determine from the files:

- how the rate of the student's progress in the current year compared to that of prior years and to that of age peers (in other words, is the student falling further behind, catching up, or staying about the same?); and
- the basic strategy to be employed (for example, to what extent should the school's and the student's efforts be focused on improving on relative weaknesses versus building on relative strengths?).

All of the boards we visited were experiencing significant turnovers of teachers, special education teachers, and principals, which increased the risk of delays or errors in meeting students' needs. Including the reasons behind service decisions in student files would help ensure continuity and effectiveness of service delivery. In addition, this information would help parents to assess the adequacy of the services and supports provided to their children.

Such information, together with the information required by ministry standards, would also enable educators to provide an analysis of and explanation for differences from planned progress. The analysis would, in turn, provide a basis for quality reviews of the appropriateness of the student's placement and of the services and supports provided. There could be several reasons why a student fails to progress that involve non-school factors in the student's life, problems with the school's service delivery, or both. Requiring schools to document reasons why expectations were not achieved would assist parents and educators to determine the appropriate corrective action to be taken and by whom it should be taken.

Recommendation

To help ensure that educators have the information they need to determine how to best meet the needs of students and to help parents assess the adequacy of services and supports, the Ministry should require boards to summarize the rationale for key service decisions in Individual Education Plans and provide explanations for cases in which planned progress has not been achieved.

Ministry Response

We agree and, through the recently introduced standards for Individual Education Plans, we require and will monitor that individual student strengths and needs, as well as educational goals, are the basis for planned interventions. We will also monitor the implementation of the standards, which

require ongoing evaluation of the strategies through the regular student reporting cycle.

Reporting on Student Progress

We noted that some teachers, in evaluating student achievement of the learning expectations of a modified curriculum, were using the provincial report-card form. That form, however, is geared to the expectations of the regular provincial curriculum, and so its usefulness in evaluating students working on modified curricula may be limited. Modifying the IEP form to include reporting whether or not each modified learning expectation was achieved would be one way to provide parents with a clearer picture of how their children are performing. One school we visited did this.

Recommendation

To help ensure that all parents are provided with clear reports on their children's progress, the Ministry should provide boards with examples of good practice in reporting the progress of students working towards modified learning expectations.

Ministry Response

The Ministry will identify good practices and share them.

PROGRAM QUALITY STANDARDS AND ASSURANCE

Having good-quality IEPs is important but does not guarantee the quality of programs and services provided. It is also important to have assurance that the services are delivered in accordance with the IEP and that IEPs are developed for all students who require one at the earliest opportunity. However, neither the boards we visited nor the Ministry had procedures in place to provide assurance that each of the 4,800 schools in the province was delivering appropriate special education programs and services.

Instead, it is up to parents to advocate for their child when they feel their child is not getting the assistance he or she requires. However, the ability of parents to advocate for their child is variable depending on how well informed they are about available services and supports.

Regulation 181/98 requires principals to consult with parents in developing IEPs. However, the extent of parental involvement and the quality of service generally depend heavily on the principal's approach to service delivery. Some parents we interviewed were very well informed about and involved in the decision-making process for their child, either because they chose to be or because they were encouraged to be. Others were less informed and involved and were simply asked to sign the IEP as evidence that it had been discussed with them. Some of these parents complained that their involvement and input was simply tolerated rather than encouraged.

Plans. We will assess and introduce appropriate compliance and monitoring procedures.

Supporting Service Decisions

In the student files we examined, it was often difficult to determine the rationale for the service decisions that formed the basis of students' IEPs. There were no summaries of the information and discussions underlying those decisions. For example, we could not determine from the files:

- how the rate of the student's progress in the current year compared to that of prior years and to that of age peers (in other words, is the student falling further behind, catching up, or staying about the same?); and
- the basic strategy to be employed (for example, to what extent should the school's and the student's efforts be focused on improving on relative weaknesses versus building on relative strengths?).

All of the boards we visited were experiencing significant turnovers of teachers, special education teachers, and principals, which increased the risk of delays or errors in meeting students' needs. Including the reasons behind service decisions in student files would help ensure continuity and effectiveness of service delivery. In addition, this information would help parents to assess the adequacy of the services and supports provided to their children.

Such information, together with the information required by ministry standards, would also enable educators to provide an analysis of and explanation for differences from planned progress. The analysis would, in turn, provide a basis for quality reviews of the appropriateness of the student's placement and of the services and supports provided. There could be several reasons why a student fails to progress that involve non-school factors in the student's life, problems with the school's service delivery, or both. Requiring schools to document reasons why expectations were not achieved would assist parents and educators to determine the appropriate corrective action to be taken and by whom it should be taken.

Recommendation

To help ensure that educators have the information they need to determine how to best meet the needs of students and to help parents assess the adequacy of services and supports, the Ministry should require boards to summarize the rationale for key service decisions in Individual Education Plans and provide explanations for cases in which planned progress has not been achieved.

Ministry Response

We agree and, through the recently introduced standards for Individual Education Plans, we require and will monitor that individual student strengths and needs, as well as educational goals, are the basis for planned interventions. We will also monitor the implementation of the standards, which

require ongoing evaluation of the strategies through the regular student reporting cycle.

Reporting on Student Progress

We noted that some teachers, in evaluating student achievement of the learning expectations of a modified curriculum, were using the provincial report-card form. That form, however, is geared to the expectations of the regular provincial curriculum, and so its usefulness in evaluating students working on modified curricula may be limited. Modifying the IEP form to include reporting whether or not each modified learning expectation was achieved would be one way to provide parents with a clearer picture of how their children are performing. One school we visited did this.

Recommendation

To help ensure that all parents are provided with clear reports on their children's progress, the Ministry should provide boards with examples of good practice in reporting the progress of students working towards modified learning expectations.

Ministry Response

The Ministry will identify good practices and share them.

PROGRAM QUALITY STANDARDS AND ASSURANCE

Having good-quality IEPs is important but does not guarantee the quality of programs and services provided. It is also important to have assurance that the services are delivered in accordance with the IEP and that IEPs are developed for all students who require one at the earliest opportunity. However, neither the boards we visited nor the Ministry had procedures in place to provide assurance that each of the 4,800 schools in the province was delivering appropriate special education programs and services.

Instead, it is up to parents to advocate for their child when they feel their child is not getting the assistance he or she requires. However, the ability of parents to advocate for their child is variable depending on how well informed they are about available services and supports.

Regulation 181/98 requires principals to consult with parents in developing IEPs. However, the extent of parental involvement and the quality of service generally depend heavily on the principal's approach to service delivery. Some parents we interviewed were very well informed about and involved in the decision-making process for their child, either because they chose to be or because they were encouraged to be. Others were less informed and involved and were simply asked to sign the IEP as evidence that it had been discussed with them. Some of these parents complained that their involvement and input was simply tolerated rather than encouraged.

Delivering the IEP

The Ministry's 1998 IEP guidelines suggest, and both the *Education Act* and the September 2000 IEP standards require, that IEPs specify the resources or supports a student needs to meet expectations. As stated earlier, this requirement had not been met in the files we examined, partly because educators were concerned that they might not be able to provide a specified level of support. At the schools we visited, principals allocated the resources they were given based on their own judgment and that of their staff regarding the relative need of each student with special needs. They also noted that resource allocation was influenced by persistent advocacy by parents and not just by assessed needs.

Ministry personnel and educators made the point that it is difficult to determine how much service to provide to students with special needs, since there is always something more that could be done. Consequently, there is a need for guidelines that would assist educators in making such judgments and thereby reduce the risk that the allocation of finite resources is influenced more by advocacy than by relative need. The Ministry currently has a project underway to develop standards for the delivery of special education programs and services. Drafts for five exceptionalities were to be published in the summer of 2001 and drafts for five more are to be published by December. Drafts for two remaining exceptionalities are planned for completion by December 2002.

The Ministry advised us that the standards will provide guidance on the attributes of quality programs but that they will not provide guidance to educators regarding how they should determine the level of service to be provided in individual cases. The Ministry's position is that the amount and type of resources to allocate to each student with special needs is a matter of professional judgment by educators, in consultation with parents and based on identified strengths and needs of students and the resources available.

Early Identification of Student Needs

Research has shown that early identification of and support for students with learning difficulties can significantly improve their educational achievement and outcomes. For some students, effective early intervention may also reduce or eliminate their need for special education programs and services later.

For several years, the Ministry has required school boards to have procedures in place to identify and respond to students' learning needs in their early years. However, neither the Ministry nor the boards we visited had established procedures to determine whether the identification and intervention processes in place in each school were timely and effective.

The need to monitor the implementation of those processes at the school level can be illustrated by one file we examined. The file indicated that learning difficulties had been identified in the early years of elementary school, both by school personnel and an outside professional, yet no formal assessment or IEP was done until the student was in high school.

In recent years, the Ministry has provided additional funding to school boards and to provincial associations for specific exceptionalities to help support and improve early intervention. The school boards we visited had all established early intervention procedures in recent years.

Although procedures varied somewhat among the school boards we visited, the process for identifying student needs can be broadly described as follows:

- As soon as a teacher determines that a student is falling behind his or her peers, the teacher is expected to implement strategies to help that student.
- If the teacher's efforts are not successful, the student is referred to a special education resource teacher, sometimes as part of a school-based team, who develops a more formal intervention strategy, based on observation and, often, the results of specialized tests.
- If the student continues to fall behind, the school principal, after obtaining parental consent, refers the student to the school board's professional support staff, who perform a detailed assessment of the student to accurately determine his or her strengths and weaknesses and to assist the principal in deciding whether the student should be referred to an Identification, Placement and Review Committee (IPRC). IPRCs:
    - determine whether a student is exceptional and, if so, what his or her exceptionalities are;
    - identify the student's strengths and weaknesses; and
    - recommend the placement that the IPRC believes will best meet the student's needs.

  We were told by educators that at the time students are formally identified by IPRCs, they are typically one to two years behind their peers academically.

One indicator of the effectiveness of each school board and school's early identification and intervention initiatives is the trend in provincial assessment results. For example, provincial assessment data published in October 2000 indicate that over one-third of grade 3 students are not meeting provincial curriculum expectations at the provincial standard (38% in reading, 37% in writing, and 34% in mathematics). Effective intervention should, over time, help to increase the proportion of students who meet curriculum expectations. Improvement targets could be established at the school board and the provincial level to track progress and performance among schools and boards.

However, this summary information is not sufficient to determine whether all students who should be receiving extra support are receiving it at the earliest opportunity. Nor does it provide the data necessary to develop improvement plans. School boards also need to track more detailed information about the timing, nature, and status of intervention efforts for students who are not meeting expectations.

Ideally, a school board's student information system could be used to capture and monitor the needed information and to follow up in a comprehensive and timely way on any problems noted. However, none of the boards we visited had the capability to do so. It is also important for school boards to establish quality-assurance procedures that would include examining a sample of student files for those not meeting provincial expectations to determine whether:

- the students had received any early intervention support or should have been referred to an IPRC and/or had an IEP prepared for them; and
- the time intervals between the first detection of a problem and each key step in the intervention process, through to either a return to regular curriculum expectations or the preparation of an IEP, were reasonable.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Recommendation

To help ensure that students receive timely and effective programs and services in accordance with ministry program standards and expectations, the Ministry should:

- **require and assist boards to implement quality-assurance information systems and procedures for their special education and early intervention programs and services; and**
- **periodically assess whether the systems and procedures established by boards are working as intended.**

Ministry Response

We will review the standards for school boards' special education plans in collaboration with our education partners to determine how boards can establish adequate systems to collect, respond to, and report on quality-assurance information.

Tracking Student Achievement and Outcomes

As stated earlier, we found that student files lacked clear, measurable expectations for the student against which to assess actual progress. Without information on individual student progress, boards could not prepare summary information about numbers of students with special needs who did not meet, who met, and who exceeded, the individual expectations set for them. Such information, compared year over year, would help trustees determine whether the program as a whole, as well as aspects of the program devoted to specific categories of exceptionality and need, were improving, stable, or deteriorating. Measuring and tracking amounts of progress would also assist management and trustees in assessing the relative effectiveness of alternative service-delivery models and in identifying training needs for school personnel.

Provincial assessments conducted each year by the Education Quality and Accountability Office (EQAO) provide objective information about student achievement relative to the provincial curriculum. However, according to the EQAO's most recent provincial assessment report from October 2000, the proportion of students exempted from all or some subject testing has been rising since the tests were introduced. Some boards exempt as many as 14% of their students from the assessment, as compared to one of the boards we visited that exempted only 1%. Possible reasons for exemptions include significant special needs, insufficient language comprehension, parental request, or principal discretion. However, the EQAO does not capture and summarize the reasons for exemptions. A student's participation in provincial assessments may also be deferred by the principal, but the extent to which this occurs is not known or controlled.

With better information on the numbers and appropriateness of exemptions and deferrals associated with special needs, trustees and the Ministry would be better able to assess whether positive trends in year-to-year results could be linked to genuine improvements or to a narrowing of the student base being tested.

Efforts to control exemptions and deferrals for students with special needs would make provincial assessment a better indicator of progress being made by those students. As a result, provincial assessment data could also be used to determine whether the school improvement plans the EQAO requires school boards to prepare should include initiatives to improve special education programs and services provided.

Outcome information on students' post-school education and employment success would similarly assist school boards and the Ministry in assessing the effectiveness of the special education programs and services at both the school board and the provincial level. Linking such outcome information to the special education programs and services students received would help to determine the factors and practices that contributed to the outcomes achieved and highlight areas for further study.

Recommendation

To help ensure that the Ministry and school boards can evaluate the effectiveness of special education programs and services, the Ministry should:

- **require school boards to summarize the progress made by students with special needs relative to planned expectations and to report board-wide results on the extent to which expectations were met;**
- **establish procedures to collect information on the post-school outcomes of students with special needs and report this information at both the school board and the provincial level.**

Ministry Response

We will review data collection requirements relative to program and student outcomes.

Provision of Professional Services

The boards we visited all had backlogs for professional services such as psycho-educational and speech-language assessments. The backlogged cases were prioritized by professional and school personnel to ensure that the most serious cases were dealt with first. As a result, less serious cases had to wait a considerable amount of time, commonly six to 12 months, for service. Some cases, particularly reassessments, were assigned such a low priority that they were not even included in the backlog, as there was too little likelihood of their receiving service.

Professional staff we interviewed stated that the need for service is a continuum ranging from those with very mild needs to the very needy. However, service decisions are being made based on budgetary considerations, and there is no basis for either school boards or the Ministry to evaluate the appropriateness of the service cut-off points currently in place.

Another concern with respect to speech and language services is the co-ordination of activities between the Ministry of Education and the Ministry of Health and Long-Term Care. Since speech pathology (treatment) is considered to be a medical service, it is the responsibility of the

Recommendation

To help ensure that students receive timely and effective programs and services in accordance with ministry program standards and expectations, the Ministry should:

- **require and assist boards to implement quality-assurance information systems and procedures for their special education and early intervention programs and services; and**
- **periodically assess whether the systems and procedures established by boards are working as intended.**

Ministry Response

We will review the standards for school boards' special education plans in collaboration with our education partners to determine how boards can establish adequate systems to collect, respond to, and report on quality-assurance information.

Tracking Student Achievement and Outcomes

As stated earlier, we found that student files lacked clear, measurable expectations for the student against which to assess actual progress. Without information on individual student progress, boards could not prepare summary information about numbers of students with special needs who did not meet, who met, and who exceeded, the individual expectations set for them. Such information, compared year over year, would help trustees determine whether the program as a whole, as well as aspects of the program devoted to specific categories of exceptionality and need, were improving, stable, or deteriorating. Measuring and tracking amounts of progress would also assist management and trustees in assessing the relative effectiveness of alternative service-delivery models and in identifying training needs for school personnel.

Provincial assessments conducted each year by the Education Quality and Accountability Office (EQAO) provide objective information about student achievement relative to the provincial curriculum. However, according to the EQAO's most recent provincial assessment report from October 2000, the proportion of students exempted from all or some subject testing has been rising since the tests were introduced. Some boards exempt as many as 14% of their students from the assessment, as compared to one of the boards we visited that exempted only 1%. Possible reasons for exemptions include significant special needs, insufficient language comprehension, parental request, or principal discretion. However, the EQAO does not capture and summarize the reasons for exemptions. A student's participation in provincial assessments may also be deferred by the principal, but the extent to which this occurs is not known or controlled.

With better information on the numbers and appropriateness of exemptions and deferrals associated with special needs, trustees and the Ministry would be better able to assess whether positive trends in year-to-year results could be linked to genuine improvements or to a narrowing of the student base being tested.

Efforts to control exemptions and deferrals for students with special needs would make provincial assessment a better indicator of progress being made by those students. As a result, provincial assessment data could also be used to determine whether the school improvement plans the EQAO requires school boards to prepare should include initiatives to improve special education programs and services provided.

Outcome information on students' post-school education and employment success would similarly assist school boards and the Ministry in assessing the effectiveness of the special education programs and services at both the school board and the provincial level. Linking such outcome information to the special education programs and services students received would help to determine the factors and practices that contributed to the outcomes achieved and highlight areas for further study.

Recommendation

To help ensure that the Ministry and school boards can evaluate the effectiveness of special education programs and services, the Ministry should:

- **require school boards to summarize the progress made by students with special needs relative to planned expectations and to report board-wide results on the extent to which expectations were met;**
- **establish procedures to collect information on the post-school outcomes of students with special needs and report this information at both the school board and the provincial level.**

Ministry Response

We will review data collection requirements relative to program and student outcomes.

Provision of Professional Services

The boards we visited all had backlogs for professional services such as psycho-educational and speech-language assessments. The backlogged cases were prioritized by professional and school personnel to ensure that the most serious cases were dealt with first. As a result, less serious cases had to wait a considerable amount of time, commonly six to 12 months, for service. Some cases, particularly reassessments, were assigned such a low priority that they were not even included in the backlog, as there was too little likelihood of their receiving service.

Professional staff we interviewed stated that the need for service is a continuum ranging from those with very mild needs to the very needy. However, service decisions are being made based on budgetary considerations, and there is no basis for either school boards or the Ministry to evaluate the appropriateness of the service cut-off points currently in place.

Another concern with respect to speech and language services is the co-ordination of activities between the Ministry of Education and the Ministry of Health and Long-Term Care. Since speech pathology (treatment) is considered to be a medical service, it is the responsibility of the

Ministry of Health and Long-Term Care to provide it. The Ministry of Education set out school-board responsibilities in areas of shared responsibility with the Ministry of Health and Long-Term Care in Policy/Program Memorandum No. 81 (PPM 81), which was issued in 1984 and is still in effect. In 1988, Interministerial Guidelines for the Provision of Speech and Language Services were issued to elaborate on and clarify PPM 81. PPM 81 and the subsequent guidelines indicate that speech and language pathologists (SLPs) employed by school boards are responsible for assessing needs and for providing services for students with communication disorders where such services are an appropriate part of the students' educational programs.

An interministerial task group, consisting of representatives from the ministries of Education, Health and Long-Term Care, and Community and Social Services, reviewed areas of shared responsibility during 2000. The task group noted that the potential for ambiguity in the interpretation of these guidelines meant that the current policy was working only in a few jurisdictions, where the respective partners treated the guidelines as policy, communicated well among themselves to ensure that their respective responsibilities were clear, and provided levels of service consistent with the needs of their school-aged populations.

The task group also found that significant provincial discrepancies in the accessibility of services was creating an inequitable situation depending upon the jurisdiction in which a family was living. Some boards provide only assessment services, as outlined in PPM 81, while others, such as two of the boards in our sample, provide some language and/or speech-therapy service in accordance with the 1988 guidelines.

The SLPs we interviewed also felt that most services should be delivered by one organization and that school boards were in a better position than Community Care Access Centres, funded by the Ministry of Health and Long-Term Care, to co-ordinate the services with students' education programs.

Recommendation

To help ensure that students with special needs have available to them, in accordance with the *Education Act* and regulations, appropriate professional services regardless of the area of the province in which they reside, the Ministry should:

- **require that boards collect and report complete service-backlog information; and**
- **resolve the co-ordination of services issue with the Ministry of Health and Long-Term Care.**

Ministry Response

We agree that information about the levels of service available to students is important for planning. The **Standards for School Boards' Special Education Plans** ***require that information about service levels be reported.***

The Ministry is working with other ministries, agencies, community and education partners, and parents to develop service co-ordination models.

Ministry of Health and Long-Term Care to provide it. The Ministry of Education set out school-board responsibilities in areas of shared responsibility with the Ministry of Health and Long-Term Care in Policy/Program Memorandum No. 81 (PPM 81), which was issued in 1984 and is still in effect. In 1988, Interministerial Guidelines for the Provision of Speech and Language Services were issued to elaborate on and clarify PPM 81. PPM 81 and the subsequent guidelines indicate that speech and language pathologists (SLPs) employed by school boards are responsible for assessing needs and for providing services for students with communication disorders where such services are an appropriate part of the students' educational programs.

An interministerial task group, consisting of representatives from the ministries of Education, Health and Long-Term Care, and Community and Social Services, reviewed areas of shared responsibility during 2000. The task group noted that the potential for ambiguity in the interpretation of these guidelines meant that the current policy was working only in a few jurisdictions, where the respective partners treated the guidelines as policy, communicated well among themselves to ensure that their respective responsibilities were clear, and provided levels of service consistent with the needs of their school-aged populations.

The task group also found that significant provincial discrepancies in the accessibility of services was creating an inequitable situation depending upon the jurisdiction in which a family was living. Some boards provide only assessment services, as outlined in PPM 81, while others, such as two of the boards in our sample, provide some language and/or speech-therapy service in accordance with the 1988 guidelines.

The SLPs we interviewed also felt that most services should be delivered by one organization and that school boards were in a better position than Community Care Access Centres, funded by the Ministry of Health and Long-Term Care, to co-ordinate the services with students' education programs.

Recommendation

To help ensure that students with special needs have available to them, in accordance with the *Education Act* and regulations, appropriate professional services regardless of the area of the province in which they reside, the Ministry should:

- **require that boards collect and report complete service-backlog information; and**
- **resolve the co-ordination of services issue with the Ministry of Health and Long-Term Care.**

Ministry Response

We agree that information about the levels of service available to students is important for planning. The Standards for School Boards' Special Education Plans require that information about service levels be reported.

The Ministry is working with other ministries, agencies, community and education partners, and parents to develop service co-ordination models.

MANAGING PLACEMENT AND CLASS COMPOSITION

Once a student has been identified as exceptional, the next step in the service-delivery process is placement. The Ministry requires that boards maintain a range of placements, and IPRCs select the placement that best meets the student's needs and the parents' wishes. The options are:

- placement in a regular class (with support);
- placement in a regular class with withdrawal support (partial withdrawal to a specialized class delivered by a qualified special education teacher);
- placement in a special education class with partial integration in regular classes; or
- placement in a special education class for the entire school day.

Support for Classroom Teachers

The Ministry's policy is that the first choice for placement should be integration in a regular classroom with accommodations and supports, where such placement meets the students' needs and is in accordance with parental wishes. According to the fall 2000 enrolment reports school boards provided to the Ministry, almost 80% of students with special needs were being educated in regular classrooms for at least part of the day.

Integrated classes often have students working on alternative and modified curricula, where the nature and extent of modification varies with the student. Teachers must therefore prepare and deliver separate lessons for each student.

A concern frequently expressed by teachers we interviewed was that the size of integrated classes was negatively impacting the academic achievement of all students. Several of the schools we visited had one or more classes of 25 to 30 students, 30% of whom had IEPs. One school visited had 11 IEP'd students in a grade 3 class of 30 and 13 IEP'd students in a grade 2 class of 30. Teachers in such classes require substantial support to be able to effectively serve so many students with such a wide range of needs.

None of the boards we visited could provide the information necessary to determine how pervasive and serious the problem was. However, the extent of support available to classroom teachers was generally inadequate in the opinion of the many principals and teachers we interviewed, with the result that many of their students did not receive the support they required.

Most teachers were also concerned about the impact of interruptions by students with behavioural problems on the learning environment for other students. One teacher described a situation where much of a recent class had been lost due to a behaviour problem. Some teachers recommended establishing additional specialized behaviour classes as a solution. The concerns expressed to us were similar to the findings of a 1996 survey of teachers in British Columbia. According to that survey, classroom teachers were concerned about the placement of exceptional students in regular classrooms without adequate support, which reduced the time available for other students, and the impact of disruptive behaviour on the learning environment.

As stated earlier, the rationale for decisions and recommendations made by IPRCs needs to be made clearer so that parents and educators understand the practical strategies and supports that, in a given situation, an IPRC considered were needed to minimize disruptions and provide all students with the help they needed to progress.

A number of factors that have contributed to the lack of available support educators indicated to be a problem in certain integrated classes are described in the following two subsections.

SPECIAL EDUCATION RESOURCE TEACHERS

Because of recent turnover, there are fewer experienced special education resource teachers available to assist classroom teachers to prepare IEPs and to provide direct assistance to students with special needs. Those resource teachers we interviewed said that their time was being increasingly consumed by paperwork rather than service delivery. In particular, they were concerned with the time involved in making annual claims to the Ministry for special education grants in respect of students with high needs. We were advised by principals and special education resource teachers that they spent several hours on each claim producing required supporting documentation. Given that the needs of most of these students remain high for several years, if not permanently, staff felt that submitting claims annually for them was a poor use of resources. We understand that the Ministry plans to introduce changes that will reduce the frequency of claim submissions for such students and therefore the time and paperwork required of school-board staff.

TEACHER ASSISTANTS

Many principals, teachers, and parents were concerned about a lack of teacher assistants to help teachers provide their students with special needs with the support they require. One of the more common concerns expressed to us by parents was that their child's rate of progress was deteriorating due to a reduction in the amount of a teacher assistant's time he or she received. Data provided to the Ministry by school boards suggest that needs cannot be met with the existing numbers of teacher assistants. In particular, there were about 14,000 teacher assistants employed by Ontario school boards in October 2000. However, there were at least 25,000 students with high needs identified by school boards, the majority of whom required teacher assistant support for at least part of the day. Some required a dedicated assistant. Clearly, if much of the available teacher assistant time was needed to effectively support students with high needs, there was insufficient time available to provide needed support to the thousands of other students who required additional help to progress.

Another concern expressed by educators we interviewed was that teacher assistants are hourly contract staff and are generally available only while the students are in class. Therefore, there is very little time available for them to meet with the teacher and other support staff to properly plan how best to provide the support their students require. Also, because they are contract staff, teacher assistants are more vulnerable to job loss when school boards allocate resources to other priorities. This affects the continuity of service delivery that is often important to ensuring that students progress and is a major reason for the apparent shortage of teacher assistants province-wide.

Withdrawal Classes

While a regulation limits the size of self-contained special education classes, there are no restrictions on the size or composition of classes established to provide withdrawal support.

Teachers of such withdrawal classes we interviewed expressed concerns that the academic achievement of exceptional students was being negatively affected by an increase in the size of their classes, as well as a broadening of the range of exceptionality types, ages, and maturity levels in each class.

The boards we visited did not track class composition information in relation to the support resources available in order to determine how pervasive this issue was. They also did not have the outcome information required to measure the impact of aspects of class composition on academic achievement.

Recommendation

To help support resource allocation decisions and assist trustees and the Ministry to monitor the classroom support available to teachers and students, the Ministry should:

- **require that boards collect and report information on class composition and the support resources available for each school; and**
- **analyze the information to determine how pervasive support or composition problems are and take corrective action where necessary.**

Ministry Response

The Ministry will work with school boards to determine the means or mechanisms by which data can be collected and analyzed in order to support school board and Ministry resource allocation decisions.

PLANNING AND OVERSIGHT OF PROGRAMS AND SERVICES

Each school board must submit its special education plan to the Ministry every two years, as well as submit changes to the plan annually. Ministry district offices review the plans. The Ministry considered the results of its review of the 1999 plans in developing standards for special education plans, which it issued in September 2000. The standards require that each special education plan specify: the board's range of placements for students with special needs; strategies for placing students with special needs in a regular classroom; strategies for early identification and intervention; staff resources; processes involved in arriving at service decisions for each student; and processes for preparing and implementing Individual Education Plans for students. The plans due in July 2001 will be reviewed for compliance with these standards, and school boards must make them publicly available.

Ministry standards also require that, at every school board, a Special Education Advisory Committee (SEAC) participate in the school board's annual review of its special education plan. A SEAC may have up to 12 members from local parent associations, up to three trustees, and, in certain circumstances, one or two Native representatives. In addition, a board may also appoint one or more community members who are not trustees and not local-association representatives.

Teachers of such withdrawal classes we interviewed expressed concerns that the academic achievement of exceptional students was being negatively affected by an increase in the size of their classes, as well as a broadening of the range of exceptionality types, ages, and maturity levels in each class.

The boards we visited did not track class composition information in relation to the support resources available in order to determine how pervasive this issue was. They also did not have the outcome information required to measure the impact of aspects of class composition on academic achievement.

Recommendation

To help support resource allocation decisions and assist trustees and the Ministry to monitor the classroom support available to teachers and students, the Ministry should:

- **require that boards collect and report information on class composition and the support resources available for each school; and**
- **analyze the information to determine how pervasive support or composition problems are and take corrective action where necessary.**

Ministry Response

The Ministry will work with school boards to determine the means or mechanisms by which data can be collected and analyzed in order to support school board and Ministry resource allocation decisions.

PLANNING AND OVERSIGHT OF PROGRAMS AND SERVICES

Each school board must submit its special education plan to the Ministry every two years, as well as submit changes to the plan annually. Ministry district offices review the plans. The Ministry considered the results of its review of the 1999 plans in developing standards for special education plans, which it issued in September 2000. The standards require that each special education plan specify: the board's range of placements for students with special needs; strategies for placing students with special needs in a regular classroom; strategies for early identification and intervention; staff resources; processes involved in arriving at service decisions for each student; and processes for preparing and implementing Individual Education Plans for students. The plans due in July 2001 will be reviewed for compliance with these standards, and school boards must make them publicly available.

Ministry standards also require that, at every school board, a Special Education Advisory Committee (SEAC) participate in the school board's annual review of its special education plan. A SEAC may have up to 12 members from local parent associations, up to three trustees, and, in certain circumstances, one or two Native representatives. In addition, a board may also appoint one or more community members who are not trustees and not local-association representatives.

In connection with its participation in the annual review, a SEAC is expected to examine and comment on the plan. The SEAC's other responsibilities are:

- participating in its school board's annual budget process and reviewing the financial statements of the board with respect to special education;
- making recommendations to its school board on any matter affecting the establishment, development, and delivery of special education programs and services; and
- providing, on request, information to parents.

The Ministry's standards constitute an important step in improving the quality, consistency, and accessibility of special education plans and will help the Ministry to determine whether school boards are offering a range of programs and services to meet student needs. However, compliance with the standards will not ensure effective oversight and management accountability for service delivery for two reasons.

First, the standards do not require plans to include measurable goals or targets for improving programs and services and, ultimately, achievement levels for students with special needs. The focus is more on what is being done rather than on what is to be achieved.

Second, the standards do not require a discussion and analysis of trends resulting from changes in the population of students with special needs and personnel serving them. Information that would be useful for assessing the adequacy and quality of service delivery and for establishing future goals would include:

- summary data on the size, composition, and placement of the population of students with special needs;
- caseload statistics for professional services such as those provided by psychologists, speech and language pathologists, therapists, and social workers (this information would complement the new standards' requirement that boards disclose average waiting times for the various professional assessments and the criteria for managing waiting lists); and
- an analysis of special education training requirements and the availability of personnel with sufficient special education training or experience in key roles such as principals, special education teachers, and special education resource teachers.

Also, school boards need to have cost-effective systems and procedures for obtaining and reporting the above information so that it is timely and reliable for decision-making and for effective oversight. None of the boards we visited had the systems and procedures in place to provide such information, and substantial effort would have been required to produce it. For example, the SEAC of one of the boards we visited had requested waiting-list information from its board staff—the information had to be obtained from a special survey of schools, and the results were incomplete.

Recommendation

To help ensure that school-board special education programs and services are effective and to enable the Ministry to obtain assurance of that effectiveness, the Ministry should improve its standards for special education plans to include the requirements that:

- **trustees, with the advice of Special Education Advisory Committees, establish service-delivery objectives for management;**
- **management report annually on the extent to which service-delivery objectives have been achieved and on any necessary corrective action; and**
- **boards have systems and procedures to ensure the accuracy and completeness of the information presented in the plans and management reports.**

Ministry Response

We agree, and, in future reviews of the standards for school boards' special education plans, the Ministry will work with its education partners to determine a mechanism by which service-delivery objectives for management might be included in special education plans and monitored.

TEACHER PREPAREDNESS

Pre-service Education

Given that the Ministry expects students with special needs to be educated in the regular classroom whenever possible, all teachers need a strong foundation in special education service delivery. Nevertheless, at the time of our audit, efforts to ensure that all teachers had this strong foundation were not sufficient, although a number of significant reform initiatives were underway.

Many educators we interviewed, including newer teachers, were concerned that new teachers are not well prepared to educate students with special needs. With the high rate of teacher retirements in recent years, fewer experienced teachers are available to meet students' needs and to act as mentors to the many new teachers entering the system. This high rate of turnover is expected to continue for several more years. According to the Ontario College of Teachers, by 2005 about 50,000, or 40%, of Ontario's full-time teachers will have five years' experience or less.

There is therefore an urgent need to ensure that the many new teachers graduating from university faculties of education are sufficiently prepared to deliver special education programs and services. In 1997, the College of Teachers began a pilot program for accrediting the province's 10 university faculties of education to better ensure quality and consistency in the skills and knowledge their graduates acquire. One conclusion of the pilot program, which was completed in 2000, was that special education was among the top priorities for improvement in pre-service teacher education. It was found during the pilot program that university programs varied widely in terms of both course content and the amount and quality of in-classroom experience with students with special needs provided. The College plans to make the accreditation program mandatory and extend it to in-service teacher-training courses once the necessary regulation has been passed.

In connection with its participation in the annual review, a SEAC is expected to examine and comment on the plan. The SEAC's other responsibilities are:

- participating in its school board's annual budget process and reviewing the financial statements of the board with respect to special education;
- making recommendations to its school board on any matter affecting the establishment, development, and delivery of special education programs and services; and
- providing, on request, information to parents.

The Ministry's standards constitute an important step in improving the quality, consistency, and accessibility of special education plans and will help the Ministry to determine whether school boards are offering a range of programs and services to meet student needs. However, compliance with the standards will not ensure effective oversight and management accountability for service delivery for two reasons.

First, the standards do not require plans to include measurable goals or targets for improving programs and services and, ultimately, achievement levels for students with special needs. The focus is more on what is being done rather than on what is to be achieved.

Second, the standards do not require a discussion and analysis of trends resulting from changes in the population of students with special needs and personnel serving them. Information that would be useful for assessing the adequacy and quality of service delivery and for establishing future goals would include:

- summary data on the size, composition, and placement of the population of students with special needs;
- caseload statistics for professional services such as those provided by psychologists, speech and language pathologists, therapists, and social workers (this information would complement the new standards' requirement that boards disclose average waiting times for the various professional assessments and the criteria for managing waiting lists); and
- an analysis of special education training requirements and the availability of personnel with sufficient special education training or experience in key roles such as principals, special education teachers, and special education resource teachers.

Also, school boards need to have cost-effective systems and procedures for obtaining and reporting the above information so that it is timely and reliable for decision-making and for effective oversight. None of the boards we visited had the systems and procedures in place to provide such information, and substantial effort would have been required to produce it. For example, the SEAC of one of the boards we visited had requested waiting-list information from its board staff—the information had to be obtained from a special survey of schools, and the results were incomplete.

Recommendation

To help ensure that school-board special education programs and services are effective and to enable the Ministry to obtain assurance of that effectiveness, the Ministry should improve its standards for special education plans to include the requirements that:

- **trustees, with the advice of Special Education Advisory Committees, establish service-delivery objectives for management;**
- **management report annually on the extent to which service-delivery objectives have been achieved and on any necessary corrective action; and**
- **boards have systems and procedures to ensure the accuracy and completeness of the information presented in the plans and management reports.**

Ministry Response

We agree, and, in future reviews of the standards for school boards' special education plans, the Ministry will work with its education partners to determine a mechanism by which service-delivery objectives for management might be included in special education plans and monitored.

TEACHER PREPAREDNESS

Pre-service Education

Given that the Ministry expects students with special needs to be educated in the regular classroom whenever possible, all teachers need a strong foundation in special education service delivery. Nevertheless, at the time of our audit, efforts to ensure that all teachers had this strong foundation were not sufficient, although a number of significant reform initiatives were underway.

Many educators we interviewed, including newer teachers, were concerned that new teachers are not well prepared to educate students with special needs. With the high rate of teacher retirements in recent years, fewer experienced teachers are available to meet students' needs and to act as mentors to the many new teachers entering the system. This high rate of turnover is expected to continue for several more years. According to the Ontario College of Teachers, by 2005 about 50,000, or 40%, of Ontario's full-time teachers will have five years' experience or less.

There is therefore an urgent need to ensure that the many new teachers graduating from university faculties of education are sufficiently prepared to deliver special education programs and services. In 1997, the College of Teachers began a pilot program for accrediting the province's 10 university faculties of education to better ensure quality and consistency in the skills and knowledge their graduates acquire. One conclusion of the pilot program, which was completed in 2000, was that special education was among the top priorities for improvement in pre-service teacher education. It was found during the pilot program that university programs varied widely in terms of both course content and the amount and quality of in-classroom experience with students with special needs provided. The College plans to make the accreditation program mandatory and extend it to in-service teacher-training courses once the necessary regulation has been passed.

The amount and nature of practical classroom experience that Ontario student teachers are required to have prior to graduation was less than that required in many other jurisdictions. Ontario student teachers have typically received eight to 11 weeks of practical classroom experience and may not be exposed to the full range of teaching responsibilities, including IEP preparation, curriculum modification, and student assessment.

In June 2001, the Ministry announced its plans to improve teacher quality and teaching excellence. The plans include testing of new graduates; mandatory ongoing professional development and re-certification in seven core areas, including special education; an internship program; and new performance-appraisal standards and procedures. We also understand that a proposed regulation will require that student teachers receive 12 weeks of practical classroom experience and that faculties of education have recently adopted this requirement in anticipation of the regulation being passed.

Special Education Resource Materials

Resource materials can help teachers and teacher assistants to provide service for students with special needs. Both teachers and teacher assistants advised us that they obtain needed information by researching a variety of Web sites and published materials. However, there is no centralized, Web-based facility that provides educators with ready access or links to current research and training materials.

Useful resources that all educators would benefit from having ready access to include: articles from journals and periodicals about the unique aspects of specific exceptionalities; successful teaching strategies; evaluations of new technology and specialized equipment together with instructions or training materials for using them; sources of useful modified curriculum materials; and tapes of recent workshops and seminars.

Having a Web-based reference facility would be one way to reduce the time and effort educators must spend in locating useful material and to increase the likelihood that such material will be used to benefit students.

Also, some students with intellectual disabilities work at levels that are significantly below those of their age peers. Elementary teachers whom we interviewed were concerned about the lack of age-appropriate reading and other materials for these students. They also questioned whether, given their other duties, it should be left up to teachers to locate and acquire materials on their own.

In our view, it would be more cost effective for the Ministry, rather than for schools and individual teachers across the province, to research and acquire or develop appropriate learning materials for students working on significantly modified curricula.

Recommendation

To help ensure that teachers are well prepared to meet the needs of students with special needs, the Ministry should:

- **work with applicable stakeholders to review the pre-service practical experience and special education course content requirements for certifying teachers and ensure that they reflect best practices in preparing teachers for their responsibilities; and**
- **investigate the feasibility of providing a cost-effective, Web-based reference facility for educators and of acquiring or developing age-appropriate instructional materials.**

Ministry Response

The Ministry is working with the teachers' regulatory body and postsecondary institutions to ensure that teachers' pre-service and mandatory professional learning will meet the service needs of special education.

The Ministry is supportive of providing educators with greater access to a Web-based reference facility.

FUNDING FOR SPECIAL EDUCATION

The Funding Formula

The current funding formula for special education was implemented by the Ministry for the school-board 1998/99 fiscal year (September–August). Its structure is set out in the following figure.

Recommendation

To help ensure that teachers are well prepared to meet the needs of students with special needs, the Ministry should:

- **work with applicable stakeholders to review the pre-service practical experience and special education course content requirements for certifying teachers and ensure that they reflect best practices in preparing teachers for their responsibilities; and**
- **investigate the feasibility of providing a cost-effective, Web-based reference facility for educators and of acquiring or developing age-appropriate instructional materials.**

Ministry Response

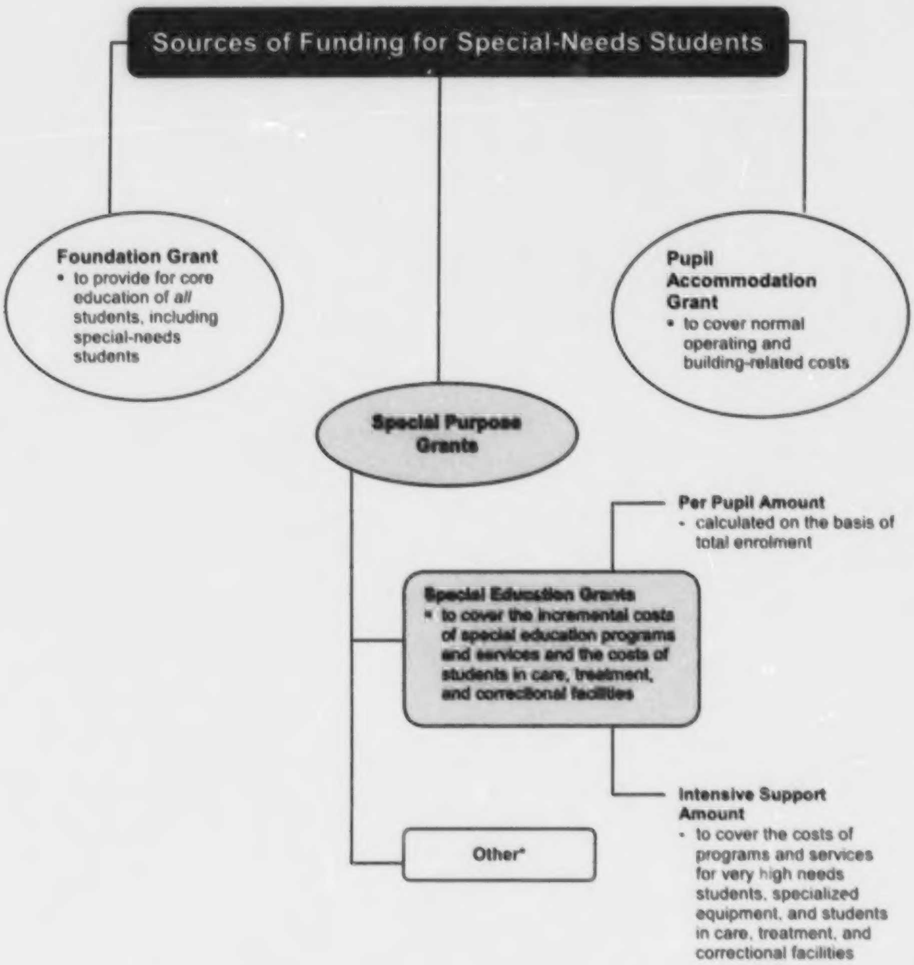
The Ministry is working with the teachers' regulatory body and postsecondary institutions to ensure that teachers' pre-service and mandatory professional learning will meet the service needs of special education.

The Ministry is supportive of providing educators with greater access to a Web-based reference facility.

FUNDING FOR SPECIAL EDUCATION

The Funding Formula

The current funding formula for special education was implemented by the Ministry for the school-board 1998/99 fiscal year (September–August). Its structure is set out in the following figure.


Sources of Funding for Special-Needs Students
Foundation Grant
• to provide for core education of *all* students, including special-needs students
Pupil Accommodation Grant
• to cover normal operating and building-related costs
Special Purpose Grants
Per Pupil Amount
- calculated on the basis of total enrolment
Special Education Grants
• to cover the incremental costs of special education programs and services and the costs of students in care, treatment, and correctional facilities
Intensive Support Amount
- to cover the costs of programs and services for very high needs students, specialized equipment, and students in care, treatment, and correctional facilities
Other*

* Eight other grants, such as the transportation grant, that recognize the different circumstances faced by students and school boards.

Source of data: Ministry of Education

As the figure illustrates, special education grants are designed to provide funding for the incremental costs of delivering special education programs and services. Other costs, such as those for classroom teachers, heating, and lighting, are to be covered through the basic grants that school boards receive for all students, including those with special needs.

The Ministry has directed that special education grants, up to the level of funding provided in the 2000/01 school year, be spent only on special education programs and services—the grants may not be used for other expenditures. If a board's incremental special education expenditures in a given year are less than the grants, the balance has to be placed in a reserve for future special education expenditures. However, any increases in special education funding for the 2001/02 school year will not have to be spent on special education programs and services.

The grants for the last three school-board fiscal years are set out in the following table.

Special Education Grants to School Boards, Actual and Revised Estimates, 1998/99–2000/01

Type of Grant	Fiscal Year 2000/01 (Revised Estimates) ($ millions)	 1999/2000 (Revised Estimates) ($ millions)	 1998/99 (Actual) ($ millions)
per-pupil amount (based on overall enrolment)	724	621	589
intensive support amount based on claims for eligible pupils			
▪ amount for programs and services for very high needs students	568	516	516
▪ amount for specialized equipment	3	3	4
total grants for special education programs and services	1,295	1,140	1,109
grants for students in care, treatment, and correctional facilities	66	65	62
Total special education grants	**1,361**	**1,205**	**1,171**

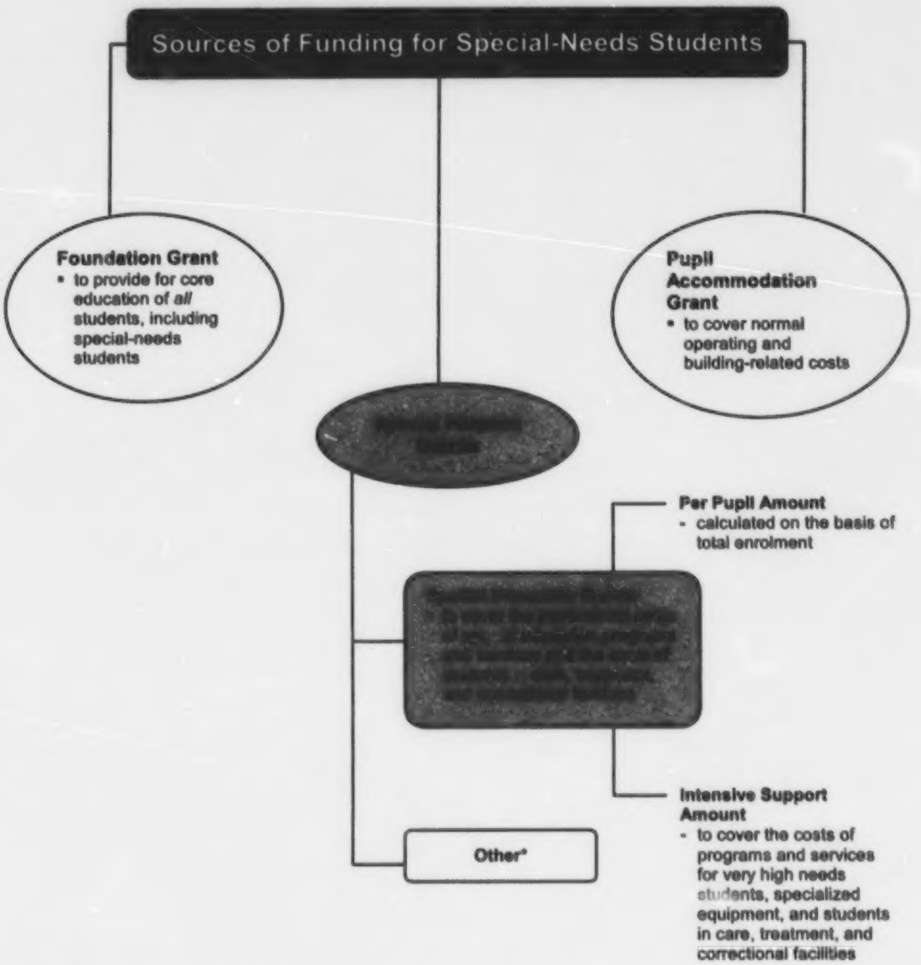
Source of data: Ministry of Education

The per-pupil amount and the amount for specialized equipment are relatively simple for the Ministry to administer. However, it is a much more complex task to determine which students are eligible for the intensive support amount (ISA), which is intended to recognize differences among boards in the incidence of students with high needs. Since the claims process was introduced for the 1998/99 school year, there have been a number of concerns about the clarity and appropriateness of the eligibility criteria and the administrative effort required to prepare and validate claims. Consequently, the Ministry is still reviewing and refining the process. The Ministry's review is to be completed in 2003.

In the interim, in order to provide funding stability, one funding procedure was followed in the 1999/2000 school year, and another is to apply from the 2000/01 school year until the completion of the review. In 1999/2000, a "test year" according to the Ministry, each board's funding was held stable at its 1998/99 level. From 2000/01 until the completion of the review, each board will receive whichever one of the following amounts is higher: its 1998/99 level of funding or the highest amount it is entitled to based on validated ISA claims for each school year from 1998/99 onwards.

Insofar as 1998/99 actual school-board expenditures are involved in determining grants in the years during the interim period, any inequities in the levels of spending, and therefore of funding, among boards in 1998/99 will continue until the improved ISA process is implemented.

The following table shows the level of incremental spending and funding per student with special needs, both for the school boards visited and for the province as a whole, in the 1999/2000 school year (the most recent year for which data were available).


Sources of Funding for Special-Needs Students
Foundation Grant
• to provide for core education of all students, including special-needs students
Pupil Accommodation Grant
• to cover normal operating and building-related costs
Per Pupil Amount
- calculated on the basis of total enrolment
Intensive Support Amount
- to cover the costs of programs and services for very high needs students, specialized equipment, and students in care, treatment, and correctional facilities
Other*

* Eight other grants, such as the transportation grant, that recognize the different circumstances faced by students and school boards.

Source of data: Ministry of Education

As the figure illustrates, special education grants are designed to provide funding for the incremental costs of delivering special education programs and services. Other costs, such as those for classroom teachers, heating, and lighting, are to be covered through the basic grants that school boards receive for all students, including those with special needs.

The Ministry has directed that special education grants, up to the level of funding provided in the 2000/01 school year, be spent only on special education programs and services—the grants may not be used for other expenditures. If a board's incremental special education expenditures in a given year are less than the grants, the balance has to be placed in a reserve for future special education expenditures. However, any increases in special education funding for the 2001/02 school year will not have to be spent on special education programs and services.

The grants for the last three school-board fiscal years are set out in the following table.

Special Education Grants to School Boards, Actual and Revised Estimates, 1998/99–2000/01

Type of Grant	Fiscal Year		
	[illegible]	[illegible]	[illegible]
per-pupil amount (based on overall enrolment)	724	621	589
intensive support amount based on claims for eligible pupils			
• amount for programs and services for very high needs students	568	516	516
• amount for specialized equipment	3	3	4
total grants for special education programs and services	1,295	1,140	1,109
grants for students in care, treatment, and correctional facilities	66	65	62

Source of data: Ministry of Education

The per-pupil amount and the amount for specialized equipment are relatively simple for the Ministry to administer. However, it is a much more complex task to determine which students are eligible for the intensive support amount (ISA), which is intended to recognize differences among boards in the incidence of students with high needs. Since the claims process was introduced for the 1998/99 school year, there have been a number of concerns about the clarity and appropriateness of the eligibility criteria and the administrative effort required to prepare and validate claims. Consequently, the Ministry is still reviewing and refining the process. The Ministry's review is to be completed in 2003.

In the interim, in order to provide funding stability, one funding procedure was followed in the 1999/2000 school year, and another is to apply from the 2000/01 school year until the completion of the review. In 1999/2000, a "test year" according to the Ministry, each board's funding was held stable at its 1998/99 level. From 2000/01 until the completion of the review, each board will receive whichever one of the following amounts is higher: its 1998/99 level of funding or the highest amount it is entitled to based on validated ISA claims for each school year from 1998/99 onwards.

Insofar as 1998/99 actual school-board expenditures are involved in determining grants in the years during the interim period, any inequities in the levels of spending, and therefore of funding, among boards in 1998/99 will continue until the improved ISA process is implemented.

The following table shows the level of incremental spending and funding per student with special needs, both for the school boards visited and for the province as a whole, in the 1999/2000 school year (the most recent year for which data were available).

Special Education Incremental Expenditures and Grants Per Student with Special Needs, 1999/2000

	Board A	Board B	Board C	Board D	Province
special education incremental expenditures	$4,740	$4,370	$4,030	$3,560	$4,630
special education grants	$4,480	$3,770	$3,370	$3,090	$4,270
number of students with special needs	9,814	14,585	1,130	3,737	267,304
incidence rate (proportion of total enrolment)	12.3%	13.6%	14.0%	15.5%	12.5%

Source of data: Ministry of Education and OPA calculations

As the table shows, there was a significant difference in the level of spending and funding per student with special needs among the boards visited. For example, board A received $1,390, or 45%, more funding per student than Board D. Such a difference can be partly justified by differences among boards in the incidence of students with special needs and the relative needs of those students. However, some of the difference is also due to the fact that funding in the 1999/2000 fiscal year was held stable at the 1998/99 level. We understand that, in the 2000/01 school year, Board D and 41 other boards received some additional funding based on their validated ISA claims, which reduced the inequity that existed in 1999/2000.

Spending differences are also reflected in the levels of resources available to serve students with special needs among the boards we visited, as the table below indicates.

Number of Special-Needs Students Per Available Staff Member, 1999/2000

	Board A	Board B	Board C	Board D
psychologists and psychological consultants	446	356	807	747
speech-language pathologists	446	521	1,130	747
social workers	446	512	none	747
special education teachers	20	23	32	37
educational assistants	18	26	32	19

Note: Available staff members may include contract and temporary staff as well as employed staff.

Source of data: School boards visited

However, without sufficient data, as mentioned earlier in the report, we could not determine the extent to which differences in resources represented differences in the range of needs in each board's population of students with special needs and/or differences in the level or method of service delivery.

Ministry Analysis of Reported Board Expenditures

Boards report special education expenditures in schedules included in the annual financial-reporting package that they submit to the Ministry. However, the Ministry does not analyze the information it collects from boards and determine the reason for inconsistencies in the year-over-year expenditures within a board and in the relative expenditures across all boards. An example of such an inconsistency shown in the table below is that reported special education expenditures at the boards we visited were significantly higher (by over 15% at three of the boards) than special education grants. For the province as a whole, incremental expenditures were over $95 million higher than special education grants.

Total Special Education Incremental Expenditures and Grants, 1999/2000

	Board A	Board B	Board C	Board D	Province
reported special education incremental expenditures ($ 000s)	46,490	63,737	4,548	13,296	1,237,409
special education grants ($ 000s)	43,942	55,037	3,813	11,556	1,142,365*
above-grants expenditure ($ 000s)	2,548	8,700	735	1,740	95,044
% above grants	5.8	15.8	19.3	15.1	8.3

* This amount reflects the data in annual financial-reporting packages submitted by boards to the Ministry. It differs from the amount that appears in the "Special Education Grants to School Boards" table, which reflects certain funding adjustments made by the Ministry.

Source of data: Ministry of Education and OPA calculations

Questions arising from this discrepancy that the Ministry did not investigate include:

- What was the impact on the programs from which the $95 million was re-allocated? Had the Ministry been overfunding those programs by $95 million, or, instead, were the students served by those programs disadvantaged in some way as a result of the re-allocation?
- Was the $95 million above-grant expenditure due to poor spending decisions by the boards and/or uneconomic special education service delivery, or does it indicate an inadequate level of funding for special education? If the former, can the Ministry provide examples of ways to make spending and service delivery more cost effective?

The boards we visited stated that they funded their special education overspending using the unrestricted learning opportunities grant provided by the Ministry.

In order for the Ministry to reach appropriate conclusions from analyses of reported information, the information must be reliable. However, the Ministry does not obtain assurance that the information that boards report is accurate, complete, and prepared in a consistent manner such that one board's results may be compared to another's. The Ministry needs assurance, for example, that differences in per-student expenditures are not due to differences in the types of costs boards charge to special education or to differences in how boards identify students as having special needs. For example, we found that the relatively low above-grant expenditure by board A in the grants and expenditures table was caused by the fact that the board had reported expenditures based on erroneous estimates rather than on actual costs, due to limitations in the board's accounting system. Board A's expenditures per student with special needs as indicated in the above table were also understated because of this error.

Lack of Information on Spending by Activity

There is little information available on school-board spending by activity or program that can be related to outcomes. Consequently, important questions cannot be answered, including:

- What is the cost of student assessments performed by school-board professional support staff? How does the total cost of performing assessments vary by type of exceptionality?

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Do the benefits of assessments—better IEPs that result in improved student outcomes—indicate that more, the same amount of, or less, special education funding should be allocated to these services?

- What is the cost of providing services and supports for individual students and specific categories of exceptionality? How do these costs compare to the results achieved? Where costs are high compared to results (for example, in the cases frequently cited to us of teachers and other professional staff spending a disproportionate amount of time on behaviour problems with limited results), should the Ministry take the lead in locating or developing more cost-effective delivery models?
- What is the most effective and economic mix of special education staff? Would student outcomes be improved by having more special education assistants and fewer special education teachers, or vice versa?

If the costs of special education activities are not known, management at school boards cannot effectively manage costs, and the Ministry, trustees, SEACs, and parents cannot assess how effectively management has spent special education funds. In addition, school-board management cannot reliably develop business cases to support the introduction of new technologies and service-delivery models.

Reporting the Full Cost of Special Education Programs and Services

Students with special needs require more than their proportionate share of the costs of transportation, board administration, school administration, and teaching resources. However, since those costs are covered by other grants, the special education expenditure schedules required by the Ministry do not contain the full cost of delivering special education programs and services. Consequently:

- Comparing service-delivery models and decisions among boards is less useful because information on their impact on the costs covered by other grants is not available. Thus, incorrect conclusions may be reached regarding the most cost-effective service options.
- The equity of the special education funding formula for boards in different circumstances, and therefore for students across the province, cannot be evaluated. For example, many rural and northern boards have less than 1,000 students with special needs who are spread over large geographic areas, while several urban boards have more than 5,000 students spread over comparatively small geographic areas. In our sample, board C was the smallest board, with 1,130 students with special needs spread over a wide geographic area, while boards A and B were both large urban boards. However, as the previous tables show, board C had far higher numbers of students per staff member, at the same time that it had the highest above-grants spending percentage, at 19.3%.

Recommendation

To strengthen the ability of trustees, Special Education Advisory Committees, parents, and the Ministry to hold school-board administrators accountable for spending special education funds in a cost-effective manner and to

strengthen the Ministry's ability to ensure the adequacy and equity of the special education funding formula, the Ministry should:

- **require that boards report the full cost of special education by major activities and functions and establish standards to ensure that the reported information is comparable across boards;**
- **obtain assurance regarding the reliability of the reports; and**
- **analyze the reported information, determine the reasons for any significant inconsistencies in expenditures, and take action where appropriate.**

Ministry Response

The Ministry will review its standards for board reporting of special education expenditures to ensure that this information is complete, reliable, and comparable across boards. The Ministry appreciates that the Provincial Auditor recognizes that this is ongoing work and part of a multi-year plan to improve the consistency, reliability, and accuracy of information reported by school boards.

APPENDIX

Status of 1994 Public Accounts Committee Recommendations to the Ministry of Education and Training Relating to Section 3.08 of our *1993 Annual Report*

Recommendation	Current Status
1. The Ministry of Education and Training should ensure that it has consistent guidelines and sufficient expertise with which to review the special education plans of school boards.	• Implemented. Standards for special education plans were issued September 29, 2000. The results of the Ministry's review of the 1999 plans school boards prepared were considered in developing the standards. District Office staff will review the 2001 plans for compliance with the standards, but will not be critically evaluating them. We have made a further recommendation regarding special education plans.
2. The Ministry of Education and Training should establish procedures that enable it to monitor the costs and effectiveness of special education programs and services delivered by school boards and facilitate the sharing of best practices among school boards.	• Not implemented. We have made a further recommendation in this area.
3. The Ministry should accelerate the Education Finance Reform Project. In the meantime, the Ministry should monitor more closely the use of provincial grants by school boards.	• Partially implemented. Finance Reform was introduced in 1996; however, special education funding reform was not introduced until 1998 and is still being refined. • Ministry monitoring of some $68 million of special education grants to school boards for students in care, treatment, or correctional facilities and for specialized equipment has improved.

Do the benefits of assessments—better IEPs that result in improved student outcomes—indicate that more, the same amount of, or less, special education funding should be allocated to these services?

- What is the cost of providing services and supports for individual students and specific categories of exceptionality? How do these costs compare to the results achieved? Where costs are high compared to results (for example, in the cases frequently cited to us of teachers and other professional staff spending a disproportionate amount of time on behaviour problems with limited results), should the Ministry take the lead in locating or developing more cost-effective delivery models?
- What is the most effective and economic mix of special education staff? Would student outcomes be improved by having more special education assistants and fewer special education teachers, or vice versa?

If the costs of special education activities are not known, management at school boards cannot effectively manage costs, and the Ministry, trustees, SEACs, and parents cannot assess how effectively management has spent special education funds. In addition, school-board management cannot reliably develop business cases to support the introduction of new technologies and service-delivery models.

Reporting the Full Cost of Special Education Programs and Services

Students with special needs require more than their proportionate share of the costs of transportation, board administration, school administration, and teaching resources. However, since those costs are covered by other grants, the special education expenditure schedules required by the Ministry do not contain the full cost of delivering special education programs and services. Consequently:

- Comparing service-delivery models and decisions among boards is less useful because information on their impact on the costs covered by other grants is not available. Thus, incorrect conclusions may be reached regarding the most cost-effective service options.
- The equity of the special education funding formula for boards in different circumstances, and therefore for students across the province, cannot be evaluated. For example, many rural and northern boards have less than 1,000 students with special needs who are spread over large geographic areas, while several urban boards have more than 5,000 students spread over comparatively small geographic areas. In our sample, board C was the smallest board, with 1,130 students with special needs spread over a wide geographic area, while boards A and B were both large urban boards. However, as the previous tables show, board C had far higher numbers of students per staff member, at the same time that it had the highest above-grants spending percentage, at 19.3%.

Recommendation

To strengthen the ability of trustees, Special Education Advisory Committees, parents, and the Ministry to hold school-board administrators accountable for spending special education funds in a cost-effective manner and to

strengthen the Ministry's ability to ensure the adequacy and equity of the special education funding formula, the Ministry should:

- **require that boards report the full cost of special education by major activities and functions and establish standards to ensure that the reported information is comparable across boards;**
- **obtain assurance regarding the reliability of the reports; and**
- **analyze the reported information, determine the reasons for any significant inconsistencies in expenditures, and take action where appropriate.**

Ministry Response

The Ministry will review its standards for board reporting of special education expenditures to ensure that this information is complete, reliable, and comparable across boards. The Ministry appreciates that the Provincial Auditor recognizes that this is ongoing work and part of a multi-year plan to improve the consistency, reliability, and accuracy of information reported by school boards.

APPENDIX

Status of 1994 Public Accounts Committee Recommendations to the Ministry of Education and Training Relating to Section 3.08 of our *1993 Annual Report*

Recommendation	Current Status
1. The Ministry of Education and Training should ensure that it has consistent guidelines and sufficient expertise with which to review the special education plans of school boards.	▪ Implemented. Standards for special education plans were issued September 29, 2000. The results of the Ministry's review of the 1999 plans school boards prepared were considered in developing the standards. District Office staff will review the 2001 plans for compliance with the standards, but will not be critically evaluating them. We have made a further recommendation regarding special education plans.
2. The Ministry of Education and Training should establish procedures that enable it to monitor the costs and effectiveness of special education programs and services delivered by school boards and facilitate the sharing of best practices among school boards.	▪ Not implemented. We have made a further recommendation in this area.
3. The Ministry should accelerate the Education Finance Reform Project. In the meantime, the Ministry should monitor more closely the use of provincial grants by school boards.	▪ Partially implemented. Finance Reform was introduced in 1996; however, special education funding reform was not introduced until 1998 and is still being refined. ▪ Ministry monitoring of some $68 million of special education grants to school boards for students in care, treatment, or correctional facilities and for specialized equipment has improved.

Recommendation	Current Status
4. The government should ensure full co-operation among the ministries that provide the complete range of services required by children with special needs. It should also consider reallocating the responsibility for providing these services among the ministries involved, in order to deliver special education in a more effective, integrated and cost-efficient manner.	▪ Not implemented. Co-ordination of services has been a long-standing issue. ▪ We have made a further recommendation on the issue.
5. The Minister of Education and Training should implement the necessary steps to require that school boards be subject to value-for-money audits. In doing so, the Minister may wish to apply section 17 of the *Audit Act*.	▪ Not implemented. ▪ However, the government did announce support for required amendments to the *Audit Act* in April 2001.
6. The Ministry of Education and Training, as a matter of policy, should ensure that all members of school boards and Special Education Advisory Committees (SEACs) are informed after their election of the role, responsibility, and best practices of SEACs.	▪ Implemented. There have been several initiatives to support SEACs since our 1993 audit. The most recent was a training initiative that included SEAC members launched by the Ministry in February 2001. ▪ Regulation 464/97 addresses the requirement for boards to provide SEAC members with information on their role.
7. The Ministry of Education and Training should require that each SEAC be an active participant in the planning and monitoring of the programs and services in its school board's special education plan.	▪ Implemented. ▪ Regulation 464/97 gives SEACs the right to be heard at board meetings before decisions on SEAC recommendations are made and to participate in the annual review of the special education plan, the budget, and the portions of the financial statements that relate to special education. ▪ Ministry district-office staff reviews of the plans include ensuring that each board's SEAC has reviewed the plan.
8. In order to improve communication between parents and the Identification, Placement, and Review Committee (IPRC), the Ministry of Education and Training should ensure that: ▪ parents have the right to an advocate during the IPRC process and they understand this right; ▪ the IPRC advise the parents before each meeting of this right; and ▪ each school board provide the parents with access to an interpreter when necessary.	▪ Implemented. Regulation 181/98 governs IPRCs and requires them to consider parent-supplied information when reaching their decisions. ▪ It also gives parents the right to have a representative present at any IPRC hearing. ▪ Parents must receive 10 days' notice of any meeting involving their child.
9. Each school board should advise parents annually of the existence of the parents' guide, and in particular point out the parents' right to refer their child to the IPRC through the principal. The parents' guide should include a description of the full range of options for their child, including options available at provincial and demonstration schools.	▪ Partially implemented. Regulation 181/98 requires a board's parents' guide to be provided to families of exceptional students and available at all schools and at the Ministry's district offices. However, it does not require that they be provided to parents in advance of IPRC meetings and in many cases they were not at the schools we visited. ▪ Special education plans contain much useful information about a school board's programs and services as well as special education policies and requirements, including the parents' guide, but the plans were not readily accessible at some boards. The new standard requires school boards to make their plans publicly accessible.

Recommendation	Current Status
10. The Ministry should require that classroom and non-classroom professional experts communicate directly with each other and with parents in conducting an assessment of a pupil.	▪ Partially implemented. Regulation 181/98 requires each IEP to be discussed with the parent. Boards must seek a parent's consent before conducting an assessment of a child, and assessment results must be discussed with parents. ▪ The effectiveness of communication among teachers and other professionals depends largely on the encouragement of principals and accordingly may vary from school to school. This report includes further recommendations for improving documentation in order to strengthen information sharing among educators.
11. The Ministry of Education and Training should require that each IPRC, in the course of its annual review, give parents a full report of their child's progress and reassessment.	▪ In process. Many parents do not receive a full report of their child's progress because of vagueness in the IEPs and the lack of periodic reassessment. Parent's will have better information on their child's progress if the Ministry's new IEP standards are complied with.
12. The Ministry of Education and Training should emphasize the early identification of children with special needs before the IPRC process has been initiated and ensure that these children receive the appropriate programs and services and that parents are regularly consulted.	▪ In process. Regulation 181/98 requires that programs be provided to children identified early as having special needs; the programs are to be based on information available at the time and can be provided even while children wait for an IPRC. ▪ A major early childhood-intervention initiative was begun in the fall of 2000 with $70 million in additional funding. The Ministry has also funded a research project on early intervention strategies and supports undertaken by the Learning Disabilities Association of Ontario. ▪ In June 2001, the Ministry also introduced an early reading strategy aimed at improving the achievement of students in junior kindergarten to grade 3 as measured by the annual grade 3 provincial assessment.
13. The Ministry of Education and Training should revise the definitions and categories of exceptional children identified in the *Special Education Information Handbook, 1984* , to ensure that all students who have special needs can be identified as exceptional.	▪ In process. Definitions were revised in January 1999, but the program-standards initiative will result in updated definitions for all 12 exceptionalities by December 2002. ▪ An updated *Special Education Information Handbook* is to be released in November 2001.
14. The Ministry of Education and Training should ensure that a greater level of training in special education is incorporated into basic teacher certification and that in-service training in special education is available to all teachers.	▪ Not implemented. This report includes a further recommendation in this area. ▪ However, since our last audit, the Ministry has sponsored a number of initiatives aimed at identifying and sharing successful practices for meeting the needs of students with special needs in integrated classrooms. Reforms to teacher training and evaluation were announced by the Ministry in June 2001.
15. The Ministry of Education and Training should establish minimum levels of support staff required in integrated classrooms.	▪ Not implemented. As this report states, educators we interviewed remain concerned about the level of support available to teachers of integrated classes.

MINISTRY OF FINANCE

3.07–Community Reinvestment Fund

BACKGROUND

In 1996, the Government of Ontario embarked on a review of provincial-municipal service delivery arrangements that became known as "Who Does What." This initiative sought to identify opportunities for providing greater accountability to taxpayers, lowering costs, improving local autonomy, and reducing duplication and waste. The initiative led to the *Services Improvement Act,* under which certain provincial and local responsibilities were realigned. The realignments were intended to bring education costs under control, provide better service for taxpayers, and ease the pressure on residential property taxes. The initiative became known as Local Services Realignment, or LSR.

LSR was implemented in Ontario effective January 1, 1998. It involved the realignment of responsibilities and costs relating to 16 programs. Some programs previously administered by the province have been fully transferred and are now being funded and administered exclusively at the local level. Other programs have been transferred but are being cost shared between the province and the municipalities. For these programs, the province continues to be responsible for between 50% and 80% of program costs. Still other programs continue to be fully administered by the province. For these programs, the province bills the municipalities to recover the program costs it has incurred for the services delivered on their behalf.

The following table summarizes the details of the LSR programs and costs transferred.

LSR Programs

LSR Program and Transfer Status as of January 1, 2001	Ministry	Eligible Costs, 2000 ($ millions)
Municipal Support Grants[1]	Municipal Affairs and Housing	665
Municipal Transit	Transportation	275
Public Housing	Municipal Affairs and Housing	143
Property Assessment	Finance	129
GO Transit	Transportation	79
Farm Tax Rebate	Agriculture, Food and Rural Affairs	58
Other	Various	110
Provincial Offences Revenues[2]	Solicitor General	(67)
Children's Aid Societies[3]	Community and Social Services	(78)
	SUBTOTAL	**1,314**
Social Assistance • Sole Support Parents	Community and Social Services	215
Land Ambulance	Health and Long-Term Care	111
Child Care	Community and Social Services	63
	SUBTOTAL	**388**
Non-profit, Co-op, and Private Rent Geared to Income Housing	Municipal Affairs and Housing	591
Social Assistance • Ontario Disability Support Program and other social support programs	Community and Social Services	570
Policing	Solicitor General	77
Public Health	Health and Long-Term Care	75
	SUBTOTAL	**1,313**
	TOTAL ELIGIBLE LSR COSTS	3,015

[1] Since these provincial grants were discontinued as part of LSR, they have been treated as eligible municipal "costs" as part of the transfer arrangements. The cost of actual LSR programs fully transferred to the local level is therefore $1,314 million less $665 million or $649 million.

[2] Revenues transferred to municipalities.

[3] A municipal responsibility prior to LSR, now a provincial responsibility.

Source of data: Ministry of Finance

As can be seen from the table, the LSR initiative transferred a wide range of programs. This transfer of funding responsibilities from the provincial to the municipal level has been identified as a trend throughout Canada in a C.D. Howe Institute publication entitled "Municipal Finance in a New Fiscal Environment," issued in November 2000. The study notes that one result of this transfer is that municipalities must increasingly rely on own-source revenues. Accordingly, programs once funded from a broad provincial spending base are now funded from a much narrower municipal property-tax spending base. The study further points out that, between 1988 and 1998, Ontario transferred more responsibilities to municipalities than any other jurisdiction. The prime example it cites is social services. In Ontario, social services now account for 25% of municipal expenditures. In municipalities outside of Ontario, such costs account for only 1.2% of municipal expenditures.

To help enable municipalities pay for the $3 billion cost of the transferred LSR programs, the province assumed responsibility for 50% of the educational portion of residential property taxes. The province thus took over funding of approximately $2.5 billion in education costs that previously had been paid by the municipalities out of these property taxes collected. This created what is referred to as "tax room" for municipalities. By raising essentially the same total amounts in local taxes as before, municipalities would have an additional $2.5 billion to fund the transferred LSR programs.

The province further facilitated the introduction of the LSR program transfers through a number of specific one-time transitional payments totalling over $1 billion. In addition to this transitional funding, the Community Reinvestment Fund (CRF) was established in 1998 to provide annual payments. The key objective of the CRF is to ensure that the LSR initiative was and remains revenue neutral by annually making up the difference between net LSR costs transferred and municipal tax room.

While the revenue neutrality objective is not set out in legislation, the then-Minister of Municipal Affairs and Housing, in discussing the CRF in the Legislature, stated on October 8, 1997 that "we'll be able to distribute the Community Reinvestment Fund so that every municipality will come out revenue neutral." Thus, revenue neutrality is to be achieved annually, not only between the government and municipalities as a whole, but also between the government and each individual municipality. The Minister of Finance reaffirmed this objective of revenue neutrality for each municipality in correspondence with municipal Heads of Council in 1998 when the program was introduced.

A payment formula is used to calculate CRF entitlements. Payments are issued quarterly. Since 1998, CRF payments to eligible municipalities have totalled approximately $1.8 billion, with $500 million being paid in the 2000/01 fiscal year.

The CRF has been further supplemented with a CRF Bonus (introduced in 1999) and Supplementary Assistance (introduced in 2000).

The Ministry recognizes that the current structure of the CRF demands a high level of accounting and administrative effort. It also recognizes that, with its current focus on LSR costs and residential education tax room, the current CRF does not address the full range of municipal expenditure needs and fiscal capacity. As a result, at the time our audit commenced, the Ministry had initiated a review of the CRF program, and a range of options was being considered for providing financial support to municipalities in future. Therefore, the year 2001 was being treated as a transitional year pending potential program changes resulting from the review.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to assess the extent to which:

- adequate procedures existed to measure and report on whether the CRF was meeting its objective of ensuring that the LSR initiative was revenue neutral; and
- CRF system controls and related procedures were adequate to ensure that municipal payments were properly authorized and accurately processed.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Prior to the commencement of our audit, we identified audit criteria that would be used to address our audit objectives. These were reviewed and accepted by senior Ministry of Finance officials. The scope of our audit included interviews and an examination and analysis of relevant documents and administrative procedures. Audit work was conducted at the Ministry of Finance and at a number of ministries responsible for LSR programs. We also met and corresponded with representatives from the Association of Municipalities of Ontario.

Our audit work covered the period to March 31, 2001. Because LSR ministries were still in the process of finalizing data for the 2000 calendar year at the time of our audit, much of our analysis and testing was conducted on data for the 1999 calendar year. Since the Ministry of Finance's internal audit had not conducted any work in this area, it did not affect our work.

OVERALL AUDIT CONCLUSIONS

With respect to revenue neutrality, we concluded that the Ministry did not have adequate procedures to measure and report on whether the CRF was meeting this objective. In addition, certain evidence indicated that the CRF did not ensure the ongoing revenue neutrality of the LSR initiative, either as a whole or for individual municipalities, and that this problem had been growing over time. The divergence from revenue neutrality was in both directions. Some municipalities have clearly gained financially from the LSR trades, while other municipalities have lost. We also noted areas where the impact of the funding process on individual municipalities needs to be assessed.

Based on the following observations, we believe the CRF as structured at the time of our audit was working against its objective of ensuring the revenue neutrality of the LSR initiative. Further, it has led to differing impacts on individual municipalities.

- For programs fully transferred to municipalities, LSR costs for CRF entitlement purposes were frozen at the amounts existing at the time of program transfer. As a result, the actual costs incurred by municipalities in subsequently delivering these programs were not being taken into account in determining each municipality's CRF entitlement.
- For cost-shared and provincially administered programs, LSR costs for CRF entitlement purposes were frozen at the year 2000 amounts, rather than being set at the expected actual levels for 2001. Unlike in past years, with the exception of the Land Ambulance program,

there will be no year-end reconciliation and additional payments to reflect actual LSR costs exceeding those expected.

- The CRF allocation formula takes into account only those LSR costs that remained after the deduction of approximately $500 million annually to reflect a provincially imposed savings target. That target is a percentage of total municipal spending. The imposed savings target varies by size of municipality, and the Ministry has little empirical or analytical support for this approach. Furthermore, since $1.3 billion in LSR programs are still administered by the province, the savings target presents municipalities with the challenge of finding savings in programs they do not control.
- Because of the intricacies of the CRF funding formula, the savings target has had no effect in some municipalities. Such municipalities experienced annual windfall gains from the LSR initiative without having to find any local savings, while other municipalities experienced a significant, negative fiscal impact.
- The Ministry did not update the residential-education tax-room component of the CRF payment formula to reflect recent changes in assessment data, including changes in the latest province-wide current value assessment (CVA). Property assessments increased by an average of 14% above those used for CRF purposes. Updating the tax room component to reflect these changes would have increased the CRF entitlement of some municipalities and decreased the entitlement of others.

Because of the interconnectedness of the components of the CRF funding mechanism, we made a single recommendation to deal with the above concerns.

With respect to program administration, we concluded that overall system controls and procedures were adequate to ensure that CRF payments were properly authorized and processed. However, we did note areas where procedures could be strengthened. Specifically, we recommended that the Ministry:

- improve its monitoring and follow-up efforts with municipalities to ensure that CRF funds are used by municipalities as directed;
- implement procedures to recover or minimize CRF overpayments, which have amounted to $98 million over the three-year period from 1998 to 2000; and
- improve the timeliness of providing CRF information to municipalities to enable municipalities to better estimate their budgetary requirements and report on their fiscal results.

DETAILED AUDIT OBSERVATIONS

REVENUE NEUTRALITY

The objective of the CRF is to ensure that the LSR initiative is and remains revenue neutral. An LSR funding formula has been established to achieve this objective. It is summarized as follows:

$$\begin{array}{c}\textbf{LSR}\\ \textbf{Program}\\ \textbf{Costs}\end{array} - \begin{array}{c}\textbf{Municipal}\\ \textbf{Savings}\\ \textbf{Targets}\end{array} - \begin{array}{c}\textbf{Residential}\\ \textbf{Education}\\ \textbf{Tax Room}\end{array} - \begin{array}{c}\textbf{CRF}\\ \textbf{Entitlements}\end{array} \leq 0$$

We noted that ensuring municipal equity is not an objective of the CRF or the LSR funding formula.

The Ministry has not established formal performance indicators that would measure the extent to which the application of this formula is actually achieving its revenue neutrality objective. Based on our audit work on each of the formula's components, we believe such performance indicators are needed. Our audit work on these components indicated that the manner in which each of them is applied impairs the achievement of revenue neutrality. This section deals with each component of the formula and ends with a single recommendation that deals collectively with our concerns.

LSR Costs

FULLY TRANSFERRED PROGRAMS

At the time of our audit, LSR programs costing approximately $650 million annually had been fully transferred to and were being administered by municipalities. For purposes of eligibility for CRF entitlements, such costs were frozen at the point in time when the program was transferred.

Freezing CRF-eligible costs at the time of program transfer does not take into account actual costs incurred by municipalities in delivering these programs subsequent to the transfer. Costs change for many reasons, such as changes in local demographic structure, the requirement to raise program performance to meet provincial standards, the introduction of expenses unique to the municipal level such as provincial sales tax and Workplace Safety Insurance Board charges, wage increases, rising fuel prices (for Municipal and GO Transit), and general economic fluctuations.

For example, GO Transit, which at current fare rates requires significant government subsidization, was fully transferred to the municipalities as of August 1999. GO Transit expects ridership to increase by 18 million, or 3.7% annually, over the next 10 years, which will have an impact on ongoing operating costs. In addition, it expects to incur some $1 billion in capital costs over the same period.

Since there are no adjustment mechanisms to take into account changing local costs of fully transferred programs, the Ministry has no assurance that the CRF funding provided is achieving revenue neutrality on an ongoing basis. This problem will become larger as more programs are fully transferred. The Association of Municipalities of Ontario (AMO) expressed this same concern in their correspondence to us, noting that the CRF does not recognize changes in local service delivery needs.

Changes in the costs of social programs emerged as a particular concern in our discussions with the AMO. Social programs often experience significant cost fluctuations as the economy moves through upturns and downturns. The AMO has expressed the viewpoint that municipalities are not ideally equipped to deal with such volatility, as they lack the revenue sources open to the province, are restricted in their ability to borrow, and cannot incur deficits.

COST-SHARED AND PROVINCIALLY ADMINISTERED PROGRAMS

As of January 1, 2001, nearly $400 million in the costs of programs that had been fully transferred and put under the management of municipalities was still being shared between the province and the municipalities. The remaining LSR programs continued to be fully administered by the province. Municipalities are billed for these program costs, which amount to approximately $1.3 billion.

Until 2001, both the cost-shared and provincially administered programs had been funded on the basis of actual costs incurred. Specifically, for 1998, 1999, and 2000, the actual costs of these programs were compared to the funding advanced based on forecasted costs. Municipalities were given additional funding to make up any shortfall between forecasted and actual costs. Over the past three years, a total of $60 million in additional funding was provided to municipalities as a result of these year-end reconciliations.

However, because the CRF program was under review at the time of our audit, 2001 is being treated as a transitional year. In contrast to the procedures for 1998–2000, except for Land Ambulance program costs, there will be no year-end adjustments to reflect the difference between forecasted and final actual costs. We believe this approach compromises the revenue neutrality of the LSR initiative for cost-shared and provincially administered programs for the year 2001.

At the time of our audit, the Ministry had not determined whether or not updated costs will be incorporated into the CRF formula in future years. We believe it to be essential that a payment formula intended to achieve revenue neutrality use actual costs incurred. This is particularly important for:

- social assistance programs, which, similar to the fully transferred Public Housing program, could face significant financial pressures if the Ontario economy weakens; and
- programs for which municipalities are expected to achieve performance standards that the province had been unable to meet when it administered the programs. For example, as we discussed in our Special Report to the Legislative Assembly in 2000, the province had difficulties in meeting its response-time requirements for the Land Ambulance program.

Savings Targets

As part of the formula to achieve revenue neutrality, the province has imposed an annual savings target of approximately $500 million on municipalities' total expenditures. The amount of savings on total expenditures required of individual municipalities varies according to the size of the municipality as follows:

- 4.2% for municipalities with a population greater than 500,000;
- 3.2% for municipalities with populations between 100,000 and 500,000; and
- 1.7% for municipalities with populations of less than 100,000.

The savings requirement is deducted from LSR costs for the purpose of determining the CRF entitlement for each municipality. Over the last three years the imposed municipal savings have totalled $1.5 billion.

We are concerned that the required savings percentages varied according to municipal size. We found the rationale for this procedure not to be based on a thorough analysis. The Ministry's rationale was that larger municipalities have more opportunities to achieve "economies of scale" than smaller municipalities do. We would have expected this rationale to be supported by empirical or analytical evidence that would provide assurance that such savings targets were achievable and that they would be appropriate for all municipal programs. Varying savings targets based on population may also penalize some municipalities that have already been managing operations cost efficiently.

Furthermore, as the earlier chart indicates, there was $1.3 billion in LSR programs still being administered by the province. Municipalities cannot realize any savings on programs that they themselves do not administer.

Finally, we are also concerned with the impact of the savings targets on revenue neutrality. For example:

- In one municipality, available residential education tax revenue, or tax room, has exceeded transferred LSR costs by $45 million over the past three years. The $45 million represents a windfall gain for the municipality as it was not needed to fund LSR program costs. The municipality has not had to realize any savings as a result of LSR.
- In another municipality, total LSR costs over the last three years have been approximately $1.835 billion. This municipality's tax room for the three years has been $1.695 billion. Without the imposed savings target, the municipality would have received payments from the CRF of about $140 million.

  However, the total savings target imposed on the municipality over the three-year period has been $561 million, or 31% of its LSR costs, resulting in net eligible LSR costs of $1.274 billion. Since $1.695 billion in tax room exceeds the net eligible LSR costs of $1.274 billion, this municipality has been ineligible for any CRF support. We noted that the government claimed in a media release dated December 28, 2000 that this municipality had benefited from the LSR service trades by "more than $100 million in 1998, more than $150 million in 1999, and more than $150 million estimated for 2000." In this media release the government assumed that the municipality achieved all the target savings imposed by the province. However, the province had no evidence that these savings targets had actually been achieved.

The following chart summarizes the two scenarios discussed and includes, for the sake of completeness, a third scenario. In this third scenario, the municipality is entitled to CRF funds.

Cumulative CRF Entitlements of Selected Municipalities, 1998–2000

	Municipality Type A	Municipality Type B	Municipality Type C
	Savings target has no impact as tax room exceeds LSR costs Not CRF eligible ($ millions)	Savings target reduces eligibility to zero Not CRF eligible ($ millions)	LSR costs exceed tax room after savings target CRF eligible ($ millions)
total eligible LSR costs	465	1,835	82
tax room	– 510	–1,695	– 51
program transfer (gain)/loss	(45)	140	31
savings target	not applicable	– 561	– 4
CRF entitlement	nil	nil	27

Source of data: Ministry of Finance

VFM Section 3.07

As the chart illustrates, the mechanics of the funding formula require municipalities of Types B and C to either find savings locally or fund a portion of LSR program costs from local revenues. In contrast, for municipalities of Type A, not only are all LSR costs funded, but additional funds are available to subsidize other municipal expenditure areas. We noted that for the 1999 calendar year 72 municipalities fell into the Type A category; that is, they had tax room greater than the cost of the LSR programs transferred. The "windfall gains" of these municipalities for that year totalled approximately $134 million.

In summary, we believe that imposing a savings target on all municipal spending essentially conflicts with the LSR revenue neutrality objective. Therefore, incorporating the savings target based on population size into a funding formula designed to achieve revenue neutrality has led to conflicting conclusions about the success of the revenue neutrality aspect of the LSR initiative. Moreover, the mechanics of the current CRF formula create an unequal imposition of the savings targets across the province. Many jurisdictions escape from the need to find any savings at all simply because their tax room exceeds their transferred LSR costs.

Given our concerns about both the determination of the savings target and the LSR cost components of the CRF formula, we believe the Ministry needs to implement performance indicators that objectively measure the extent to which the various components of the formula facilitate the revenue neutrality intent of LSR.

Tax Room

Effective with the 1998 implementation of LSR, the province began to fund directly those education costs previously paid for by 50% of residential education taxes. This created local "tax room." In essence, assuming there was no change in local taxes levied, municipalities had additional revenues of approximately $2.5 billion to fund the costs of the transferred LSR programs.

Under the CRF formula, the basis for allocating the tax room to each municipality is the current value assessment (CVA) on which the municipalities base their property taxes. A province-wide CVA of Ontario properties is conducted every three years. Less extensive CVA adjustments are made annually. For 1998, the Ministry used the 1996 province-wide CVA results to calculate tax-room allocations. For 1999, the 1998 tax-room allocations were updated to include any in-year changes to the CVAs. This update resulted in an increase in total tax-room allocations of $40 million between 1998 and 1999. However, for the purpose of the 2000 CRF, the 1999 tax-room allocations were used without being updated by in-year CVA changes.

In 2001, the 1999 province-wide assessment results were available. Overall, CVAs across the province had increased by a total of 14% over 1996. However, for 2001 the Ministry once again used the 1999 tax-room allocations without adjustment, reflecting neither the normal in-year changes nor the 1999 CVA. If the updated 1999 property values had been used, individual municipalities' tax rooms may have been significantly different, as follows:

- In municipalities in which CVAs had dropped, the drops would have worked to increase CRF entitlements. We found that CVAs dropped in 109 municipalities, with drops ranging from 0.03% to 15%.
- In municipalities in which CVAs had risen, the increases would have worked to reduce CRF entitlements. We found that CVAs increased in 350 municipalities, with increases ranging from 0.2% to 50.1%.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Not to reflect changes in property value assessments impedes the accurate calculation of the tax room available to each municipality and thus also impedes the achievement of revenue neutrality.

CRF Review

At the time of our audit, the Ministry was considering a range of policy options for structuring future municipal financial assistance. As a result, the CRF was under review. We are encouraged by the Ministry undertaking this review initiative, as we believe it is warranted.

The review provides an opportunity for the Ministry of Finance to continue to work with the Ministry of Municipal Affairs and Housing (MMAH) in developing its future municipal support initiatives. In this regard, we note that the MMAH has recently launched a Municipal Performance Measurement Program. This program requires municipalities to report annually on the efficiency and effectiveness of local service delivery in nine core areas. These core areas include its LSR program responsibilities for transportation, police, and social services.

Recommendation

To ensure that future municipal financial support continues to meet the government's overall municipal support objectives, the Ministry should work with the Ministry of Municipal Affairs and Housing and incorporate in its approach an assessment of:

- **changes in local service delivery needs; and**
- **current municipal taxing capacity.**

If, as a result of the Community Reinvestment Fund (CRF) review, the Ministry decides to continue with the CRF approach to municipal funding, it should develop performance indicators to measure its achievement of revenue neutrality on an ongoing basis. To be able to assess the achievement of the objective of revenue neutrality and issues of divergent impacts of the CRF formula, the Ministry should ensure that its review considers:

- **the extent to which the CRF reflects actual Local Services Realignment costs incurred;**
- **the reconciliation of forecasted costs to actual costs at each year-end and subsequent payment adjustments;**
- **the distribution of any required savings efficiencies across the province based on analysis and empirical information; and**
- **the implications of up-to-date current value assessment data in its determination of municipal tax room.**

Not to reflect changes in property value assessments impedes the accurate calculation of the tax room available to each municipality and thus also impedes the achievement of revenue neutrality.

CRF Review

At the time of our audit, the Ministry was considering a range of policy options for structuring future municipal financial assistance. As a result, the CRF was under review. We are encouraged by the Ministry undertaking this review initiative, as we believe it is warranted.

The review provides an opportunity for the Ministry of Finance to continue to work with the Ministry of Municipal Affairs and Housing (MMAH) in developing its future municipal support initiatives. In this regard, we note that the MMAH has recently launched a Municipal Performance Measurement Program. This program requires municipalities to report annually on the efficiency and effectiveness of local service delivery in nine core areas. These core areas include its LSR program responsibilities for transportation, police, and social services.

Recommendation

To ensure that future municipal financial support continues to meet the government's overall municipal support objectives, the Ministry should work with the Ministry of Municipal Affairs and Housing and incorporate in its approach an assessment of:

- **changes in local service delivery needs; and**
- **current municipal taxing capacity.**

If, as a result of the Community Reinvestment Fund (CRF) review, the Ministry decides to continue with the CRF approach to municipal funding, it should develop performance indicators to measure its achievement of revenue neutrality on an ongoing basis. To be able to assess the achievement of the objective of revenue neutrality and issues of divergent impacts of the CRF formula, the Ministry should ensure that its review considers:

- **the extent to which the CRF reflects actual Local Services Realignment costs incurred;**
- **the reconciliation of forecasted costs to actual costs at each year-end and subsequent payment adjustments;**
- **the distribution of any required savings efficiencies across the province based on analysis and empirical information; and**
- **the implications of up-to-date current value assessment data in its determination of municipal tax room.**

Ministry Response

At the time the Provincial Auditor's Office commenced its audit of the CRF, the Ministry was already conducting a review of the program that is now close to completion. The first part of the recommendation is consistent with the government's objectives for that review. The Ministry agrees with the second part of the recommendation, concerning continuing with the CRF approach, and will consider it in the review of the CRF.

CRF BONUS AND SUPPLEMENTARY ASSISTANCE

The total CRF funding package in the 2000/01 fiscal year was $561 million. This amount included CRF payments of about $500 million, a CRF Bonus of $21 million, and Supplementary Assistance of $40 million. The CRF Bonus was established in 1999 after the introduction of certain cost-sharing initiatives. The stated objective in providing the Bonus was to ensure that all municipal taxpayers benefited from the province's decision to fund 50% of LSR costs for the Land Ambulance and Public Health programs. Supplementary Assistance was introduced in 2000 to give additional support to municipalities with lower taxing capacities.

In an analysis of municipalities that received the CRF Bonus and/or Supplementary Assistance in 2000, we noted that a total of $7.7 million of these funds had been paid to 34 municipalities whose tax room exceeded their LSR costs. As discussed earlier, these "Type A" municipalities were already benefiting from windfall gains, and these payments increased these windfalls.

To date, the documentation provided by the Ministry does not clearly support the need for either the Bonus or Supplementary Assistance.

Recommendation

The Ministry should conduct regular reviews of the bonus and supplementary-assistance components of the Community Reinvestment Fund to ensure that they are achieving the government's objectives.

Ministry Response

The Ministry agrees with the audit recommendation and will conduct such regular reviews.

PROGRAM ADMINISTRATION

LSR Program Costing Systems

As described previously, the CRF entitlements of provincially administered LSR programs in 2000 were based on actual 1999 year-end costs, with a reconciliation and payment adjustment process after year-end to reflect actual 2000 costs. For four of the largest LSR programs, we reviewed the systems and procedures used to calculate these costs.

Ministry Response

At the time the Provincial Auditor's Office commenced its audit of the CRF, the Ministry was already conducting a review of the program that is now close to completion. The first part of the recommendation is consistent with the government's objectives for that review. The Ministry agrees with the second part of the recommendation, concerning continuing with the CRF approach, and will consider it in the review of the CRF.

CRF BONUS AND SUPPLEMENTARY ASSISTANCE

The total CRF funding package in the 2000/01 fiscal year was $561 million. This amount included CRF payments of about $500 million, a CRF Bonus of $21 million, and Supplementary Assistance of $40 million. The CRF Bonus was established in 1999 after the introduction of certain cost-sharing initiatives. The stated objective in providing the Bonus was to ensure that all municipal taxpayers benefited from the province's decision to fund 50% of LSR costs for the Land Ambulance and Public Health programs. Supplementary Assistance was introduced in 2000 to give additional support to municipalities with lower taxing capacities.

In an analysis of municipalities that received the CRF Bonus and/or Supplementary Assistance in 2000, we noted that a total of $7.7 million of these funds had been paid to 34 municipalities whose tax room exceeded their LSR costs. As discussed earlier, these "Type A" municipalities were already benefiting from windfall gains, and these payments increased these windfalls.

To date, the documentation provided by the Ministry does not clearly support the need for either the Bonus or Supplementary Assistance.

Recommendation

The Ministry should conduct regular reviews of the bonus and supplementary-assistance components of the Community Reinvestment Fund to ensure that they are achieving the government's objectives.

Ministry Response

The Ministry agrees with the audit recommendation and will conduct such regular reviews.

PROGRAM ADMINISTRATION

LSR Program Costing Systems

As described previously, the CRF entitlements of provincially administered LSR programs in 2000 were based on actual 1999 year-end costs, with a reconciliation and payment adjustment process after year-end to reflect actual 2000 costs. For four of the largest LSR programs, we reviewed the systems and procedures used to calculate these costs.

Generally, we found that the systems and procedures for compiling the LSR costs were working well and resulted in reliable cost information. Our findings were consistent with other audit work done on these costing systems. In 1999, a consulting firm reported that the systems and procedures used to generate social housing billing amounts were suitably designed to provide reasonable assurance that the Ministry of Municipal Affairs and Housing and the Ontario Housing Corporation social housing billings were accurate and complete. The Internal Audit Division of the Ministry of Community and Social Services also recently completed an audit of the Ministry's LSR municipal billing process. It concluded that financial systems for generating and allocating cost data were effective.

Monitoring of Municipalities

Until 2000, CRF funding was provided unconditionally to municipalities. However, in March 2000 the government announced a number of new CRF-related reporting requirements. The information required from a municipality included data on local tax rates, as well as reports on how the municipality had used and planned to use its CRF funding. Furthermore, municipalities could no longer allocate CRF funds to reserve funds for future use; instead, CRF funds would have to be used to decrease local taxes otherwise payable for the current tax year. If a municipality was found to be applying its CRF entitlement in a manner that did not benefit current year taxpayers, the province reserved the right to reallocate the CRF payment to municipalities deemed to be in greater need.

These requirements created new monitoring responsibilities for the Ministry. The Ministry responded to these new responsibilities by launching a new monitoring initiative in 2000. However, we found that this monitoring needed to be improved. While the Ministry did obtain assurances from municipal councils that CRF funding had not been allocated to reserve funds, we found the following:

- To obtain assurance that municipalities used CRF funding in the current year, the Ministry would have had to obtain information on and assess the cash and working capital balances of the municipalities to ensure they had not risen significantly. No such assessment had been made.
- A summary of the submitted tax-rate data indicated that 245 municipalities had increased tax rates between 1999 and 2000. The increases ranged from 0.1% to 49.4%, with an average increase of approximately 6%. Only 43 of these municipalities voluntarily provided information on the circumstances surrounding their tax-rate increases, and there has been no follow-up by the Ministry to obtain information on the reasons for the remaining increases. Rising tax rates could indicate that, rather than achieving their savings targets, municipalities recovered such amounts from local taxpayers.
- Only municipalities that received CRF funding were asked to provide information to the Ministry. However, as discussed earlier, many municipalities ineligible for CRF funding have not had to realize any savings and have experienced windfall gains as a result of LSR. To ensure that the government's objectives are achieved, we believe all municipalities should be monitored. Municipalities with windfall gains were not assessed to determine if such gains are being passed on to the local taxpayers.

According to the Association of Municipalities of Ontario, municipalities find some of the new conditions imposed on them to be problematic. Specifically, the requirement that CRF funds not be allocated to reserves has in their view had a negative impact on local autonomy and fiscal planning and management. Municipalities use reserve funds accumulated from one period to finance planned expenditures in a future period. Using reserves, municipalities can undertake major projects without significantly affecting local taxes for any one year. Given that legislation restricts the ability of municipalities to borrow or incur deficits, reserves become a particularly important fiscal planning tool.

Recommendation

If the Community Reinvestment Fund (CRF) continues in its current form, the Ministry should determine whether municipalities are adhering to program requirements by:

- **reviewing municipal cash and working capital balances to ensure CRF funds are being used as intended by the government;**
- **following up with all municipalities that reported tax increases between 1999 and 2000 to determine why the increases were necessary; and**
- **assessing whether municipalities with windfall gains have passed these benefits on to taxpayers.**

To ensure that municipal fiscal planning is not negatively impacted, the Ministry should also work with municipalities and the Ministry of Municipal Affairs and Housing to determine if and when it would be appropriate to allow the allocation of CRF funds to municipal reserve accounts.

Ministry Response

The Ministry acknowledges that the results of the first year of CRF reporting demonstrate the need to strengthen existing procedures to monitor and assess whether municipalities are using the CRF grant in accordance with provincial objectives. At the same time, the Ministry recognizes municipal concerns that a balance must be established to ensure that changes in procedures respect municipal autonomy and do not restrict municipal budgetary decisions. With respect to allowing the allocation of CRF funds to municipal reserve accounts, the Ministry agrees with the audit recommendation and will continue in its partnership with the Ministry of Municipal Affairs and Housing to address this issue for 2002.

Overpayments

As mentioned previously, with the exception of fully transferred programs, year-end reconciliations have been performed to compare forecasted LSR costs with actual costs. The Ministry has provided additional funds to make up for shortfalls. However, in cases where year-end reconciliations identify actual costs as being below those forecasted, municipalities have been allowed to retain the excess funds provided. Unrecovered overpayments over the last three years have totalled $98 million.

We believe that, to give due regard to economy, recovery of overpayments needs to be considered. For instance, the recovery could be accomplished by reducing the first quarterly CRF payment for a subsequent year by the overpaid amount.

However, if the decision is made not to recover overpayments, the Ministry should develop a strategy to minimize their occurrence. Such a strategy could include adjusting downwards LSR program cost forecasts that, after analysis, can be identified as resulting in probable overpayments. Alternatively, the strategy could include holding back a portion of the projected CRF entitlement until actual costs are known.

Recommendation

To ensure that Community Reinvestment Fund (CRF) payments are appropriately made with due regard for economy, the Ministry, in its review, should consider the recovery of CRF overpayments or develop a strategy to minimize their occurrence.

Ministry Response

The Ministry will assess changes to its existing administrative procedures to minimize unplanned overpayments. The Ministry will need to consider municipal capacity and impact when implementing any changes in these procedures for 2002.

Municipal Information Requirements

Municipalities' budgets and financial statements are prepared on a calendar-year basis. The budget cycle for the upcoming year typically starts in late summer or early fall. In late fall through winter, the municipal budget is distributed to the local council for review and approval. Provincial financial support is a key component of municipal budgets. Accordingly, timely information from the province as to what provincial funding will be provided significantly improves the municipal planning process. It allows decisions such as those regarding municipal tax rates to be made with greater confidence and precision.

To date, the Ministry has been unable to provide municipalities with information concerning their current year's CRF entitlement until late February or early March. By that time, most municipalities have had to set their municipal tax rates for the year. The final adjusted entitlement for the prior year is also not provided until the completion of the Ministry's year-end reconciliation process in early April. This timing makes it difficult for municipalities to estimate their budgetary requirements and impossible for them to accurately reflect provincial funding in their year-end financial statements. In our discussions with the Association of the Municipalities of Ontario, it was confirmed that this lack of timely information was a significant concern for many municipalities.

be allocated to reserves has in their view had a negative impact on local autonomy and fiscal planning and management. Municipalities use reserve funds accumulated from one period to finance planned expenditures in a future period. Using reserves, municipalities can undertake major projects without significantly affecting local taxes for any one year. Given that legislation restricts the ability of municipalities to borrow or incur deficits, reserves become a particularly important fiscal planning tool.

Recommendation

If the Community Reinvestment Fund (CRF) continues in its current form, the Ministry should determine whether municipalities are adhering to program requirements by:

- **reviewing municipal cash and working capital balances to ensure CRF funds are being used as intended by the government;**
- **following up with all municipalities that reported tax increases between 1999 and 2000 to determine why the increases were necessary; and**
- **assessing whether municipalities with windfall gains have passed these benefits on to taxpayers.**

To ensure that municipal fiscal planning is not negatively impacted, the Ministry should also work with municipalities and the Ministry of Municipal Affairs and Housing to determine if and when it would be appropriate to allow the allocation of CRF funds to municipal reserve accounts.

Ministry Response

The Ministry acknowledges that the results of the first year of CRF reporting demonstrate the need to strengthen existing procedures to monitor and assess whether municipalities are using the CRF grant in accordance with provincial objectives. At the same time, the Ministry recognizes municipal concerns that a balance must be established to ensure that changes in procedures respect municipal autonomy and do not restrict municipal budgetary decisions. With respect to allowing the allocation of CRF funds to municipal reserve accounts, the Ministry agrees with the audit recommendation and will continue in its partnership with the Ministry of Municipal Affairs and Housing to address this issue for 2002.

Overpayments

As mentioned previously, with the exception of fully transferred programs, year-end reconciliations have been performed to compare forecasted LSR costs with actual costs. The Ministry has provided additional funds to make up for shortfalls. However, in cases where year-end reconciliations identify actual costs as being below those forecasted, municipalities have been allowed to retain the excess funds provided. Unrecovered overpayments over the last three years have totalled $98 million.

We believe that, to give due regard to economy, recovery of overpayments needs to be considered. For instance, the recovery could be accomplished by reducing the first quarterly CRF payment for a subsequent year by the overpaid amount.

However, if the decision is made not to recover overpayments, the Ministry should develop a strategy to minimize their occurrence. Such a strategy could include adjusting downwards LSR program cost forecasts that, after analysis, can be identified as resulting in probable overpayments. Alternatively, the strategy could include holding back a portion of the projected CRF entitlement until actual costs are known.

Recommendation

To ensure that Community Reinvestment Fund (CRF) payments are appropriately made with due regard for economy, the Ministry, in its review, should consider the recovery of CRF overpayments or develop a strategy to minimize their occurrence.

Ministry Response

The Ministry will assess changes to its existing administrative procedures to minimize unplanned overpayments. The Ministry will need to consider municipal capacity and impact when implementing any changes in these procedures for 2002.

Municipal Information Requirements

Municipalities' budgets and financial statements are prepared on a calendar-year basis. The budget cycle for the upcoming year typically starts in late summer or early fall. In late fall through winter, the municipal budget is distributed to the local council for review and approval. Provincial financial support is a key component of municipal budgets. Accordingly, timely information from the province as to what provincial funding will be provided significantly improves the municipal planning process. It allows decisions such as those regarding municipal tax rates to be made with greater confidence and precision.

To date, the Ministry has been unable to provide municipalities with information concerning their current year's CRF entitlement until late February or early March. By that time, most municipalities have had to set their municipal tax rates for the year. The final adjusted entitlement for the prior year is also not provided until the completion of the Ministry's year-end reconciliation process in early April. This timing makes it difficult for municipalities to estimate their budgetary requirements and impossible for them to accurately reflect provincial funding in their year-end financial statements. In our discussions with the Association of the Municipalities of Ontario, it was confirmed that this lack of timely information was a significant concern for many municipalities.

Recommendation

To improve municipalities' ability to accurately project provincial funding when they set municipal tax rates and to facilitate the accurate reporting of such funding in municipal year-end financial statements, the Ministry should work to improve the timeliness of the information it provides to municipalities regarding Community Reinvestment Fund entitlements.

Ministry Response

The Ministry agrees with the recommendation and will work to address this issue for 2002.

MINISTRY OF FINANCE

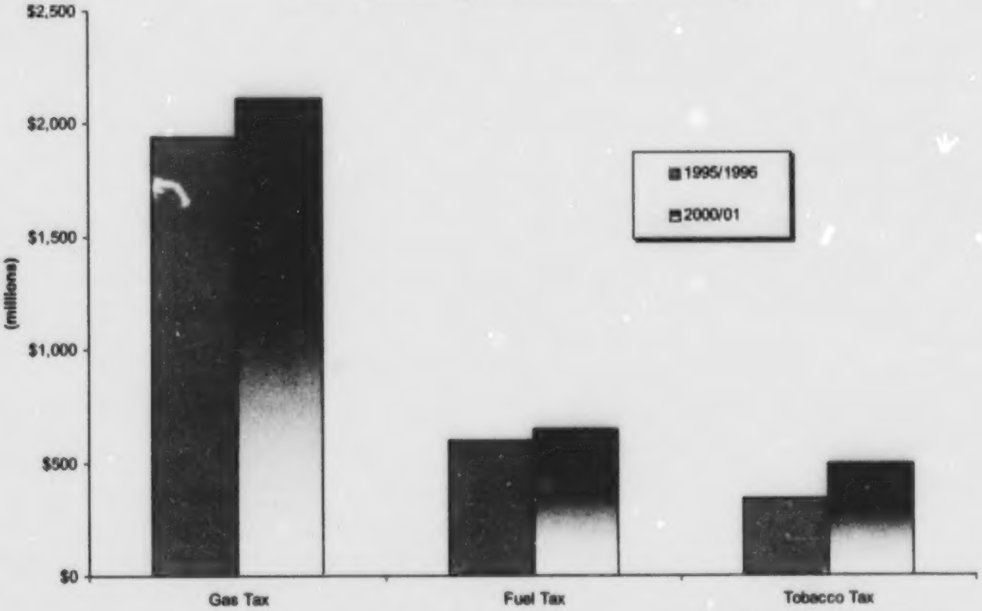
3.08–Gasoline, Fuel, and Tobacco Taxes

BACKGROUND

In Ontario, commodity taxes on gasoline, fuel, and tobacco products are levied under the authority of the *Gasoline Tax Act,* the *Fuel Tax Act*, and the *Tobacco Tax Act*, respectively.

For the 2000/01 fiscal year, the amount of taxes collected under these three acts totalled $3.25 billion, an increase of 17% over 1995, the year of our last audit. That amount represents approximately 6.7% of the province's total taxation revenue from all sources for the 2000/01 fiscal year.

Tax Revenue by Type, 1995/96 and 2000/01



Source of data: Ministry of Finance

The Ministry's administrative policies and procedures are intended to capture information on the total amounts of gasoline, fuel, and tobacco products manufactured in, imported into, and exported from Ontario. The purpose of this information is to determine both the amount of taxable consumption of those commodities in Ontario and whether the correct amounts of taxes are being declared and paid.

The Ministry of Finance has designated manufacturers and certain large wholesalers of gas, fuel, and tobacco products as collectors and remitters of tax for their respective commodities. As a result, over 95% of these taxes are collected and remitted by approximately 100 companies (referred to subsequently as collectors). Sales and purchases between collectors are tax exempt, while sales by collectors to non-collectors, such as retailers, are taxed.

The Ministry's Motor Fuels and Tobacco Tax Branch (Branch) has primary responsibility for the administration of the three tax acts. The Branch employs approximately 60 staff whose responsibilities include processing tax returns and requests for refunds as well as conducting periodic field audits and inspections designed to ensure that the correct amount of tax has been declared and paid and, in so doing, to deter non-compliance. Other ministry branches provide specialized support: the Special Investigations Branch investigates complex cases of tax evasion; the Collections and Compliance Branch collects overdue amounts; the Tax Appeals Branch handles all objections and appeals; and the Revenue Operations and Client Services Branch processes most payments.

With the exception of the inspection function, which requires staff to work in their assigned geographic areas, all Branch operations are located at the Ministry's head office in Oshawa.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Ministry's administration of the *Gasoline Tax Act*, the *Fuel Tax Act*, and the *Tobacco Tax Act* were to assess whether the Ministry had:

- adequate policies and procedures in place to ensure that the correct amounts of gasoline, fuel, and tobacco tax were remitted in accordance with statutory requirements; and
- determined the effectiveness of its policies and procedures for the reporting and remitting of these taxes to identify any areas in need of more rigorous efforts to encourage compliance or better enforcement.

The scope of our audit work included a review and analysis of relevant ministry files and administrative procedures as well as interviews with branch staff and with staff at the Special Investigations Branch, the Collections and Compliance Branch, and the Tax Appeals Branch. We also visited two of the busier Canada–United States border crossings to observe customs procedures and interview Canada Customs and Revenue Agency officials and met with representatives of the Canadian Petroleum Products Institute to gain insight into the taxation issues facing the petroleum products industry.

Our audit work covered the period up to March 31, 2001, with emphasis on the policies and procedures in place with respect to gasoline, diesel fuel, and tobacco tax revenues processed in the 2000/01 fiscal year. Although the *Gasoline Tax* and *Fuel Tax* acts also mandate the taxation of propane, aviation fuel, and diesel fuel used by railroads, our audit did not cover those areas because they accounted for only a small part of the total tax revenue and corresponding administrative activity.

Our audit was conducted in accordance with the standards for assurance engagements encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our work, we identified the audit criteria that would be used to address our audit objectives. These criteria were reviewed and agreed to by senior ministry management.

We reviewed and relied on the work performed by the Ministry's Internal Audit Services on the processing of tax receipts by the Revenue Operations and Client Services Branch. However, the work of the Audit Services branch did not affect the other aspects of our work because it had not conducted work in those areas during the past three years.

OVERALL AUDIT CONCLUSIONS

The Ministry's policies, procedures, and supporting information technology systems were inadequate for ensuring that all gasoline, fuel, and tobacco taxes were being declared and paid in accordance with statutory requirements.

For example, based on our limited testing of motor fuel and gasoline tax returns, we found up to $51 million in potential tax revenue losses to the province since the Ministry could not demonstrate that 345 million litres of gasoline and fuel were eventually captured in the tax system or were not sold for a taxable purpose. To overcome these tax collection deficiencies, the Ministry needed to focus on:

- obtaining information on amounts of gasoline and diesel fuel produced in Ontario and reconciling those amounts to reported sales to ensure that tax is paid on all gasoline and diesel production except for legitimate tax-exempt sales;
- regularly comparing the billions of dollars of reported tax-exempt sales and purchases between collectors to ensure that large discrepancies are adequately resolved or assessed for tax; and
- verifying the completeness and accuracy of reported imports and exports by comparing them to independent information such as that provided by inter-jurisdictional transporters of gasoline and diesel fuel, including pipelines.

To make the collection of tobacco taxes more effective, the Ministry needed to:

- obtain and compare information on the quantity of cigarettes produced in Ontario to the quantity of reported sales to ensure that tax is paid on all cigarette production except for legitimate tax-exempt sales;
- implement a more effective system for marking tax-paid cigarettes;
- verify the completeness and accuracy of reported tobacco imports and exports with independent information such as that provided by inter-jurisdictional transporters of tobacco products;
- ensure that the tax on tobacco imports by unregistered importers is declared and paid; and
- consider the need for developing an allocation system for the sale of tax-exempt cigars on native reserves similar to the one in place for cigarettes.

In addition, the Branch needed to significantly strengthen its audit and inspection functions to help ensure that undeclared taxes are identified and assessed.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

We also concluded that the Ministry needed to develop, implement, and monitor performance indicators to assess the extent to which it is meeting its objectives of encouraging voluntary compliance and deterring tax evasion.

It is our view that the improvements needed to ensure that all applicable gasoline, fuel, and tobacco taxes are collected will require a significant development of information technology support. Without such support, the complexity and sheer volume of the activities required to collect taxes will make it unlikely that the Ministry will be able to cost-effectively identify potential, undeclared taxes.

Overall Ministry Response

Changes are needed in ministry policies and procedures and especially in supporting information technology in order to attain the goal of total accountability for all gasoline, fuel, and tobacco products at all stages of the production and distribution process.

The audit report raises valid issues, many of which the Ministry was already in the process of addressing or had recognized as areas in which to take action. It is our intent to address any required changes, as detailed in the report, in a manner that balances priorities in terms of risk against the resources available.

DETAILED AUDIT OBSERVATIONS

GASOLINE AND DIESEL FUEL TAXES

Gasoline and fuel used for transportation purposes are currently taxed as outlined in the following table.

Petroleum Product Taxation, 2000/01

Product	Tax Cents Per Litre	Revenue ($ millions)
gasoline – leaded	17.7	2,045
gasoline – unleaded	14.7	
diesel fuel	14.3	613
diesel fuel – used by railroads	4.5	30
propane fuel	4.3	10
aviation fuel	2.7	56

Source of data: Ministry of Finance

For the 2000/01 fiscal year, the Ministry collected over $2 billion in gasoline tax and $643 million in diesel fuel tax. Approximately 98% of the gasoline tax and 94% of the diesel fuel tax were remitted by 18 gasoline tax and 13 diesel fuel tax collectors, respectively.

Diesel fuel that is used in heating, in off-road vehicles, and in machinery such as that used in manufacturing, farming, and construction is not taxed. To distinguish taxable from tax-exempt diesel fuel, tax-exempt fuel is dyed at the refinery or at bulk storage facilities while taxable fuel is left clear.

Refiners and wholesalers that, in the previous year, sold not less than 51% of their product by volume at wholesale are designated as tax collectors by the Ministry. Tax is imposed whenever a designated collector sells a taxable product to a non-collector or a registered importer that is not a collector imports taxable products. Sales between collectors and sales for export are tax exempt. Collectors, and importers that are not collectors, are required to file monthly tax returns along with payment of the correct amount of tax.

In addition, exporters and inter-jurisdictional transporters of petroleum products must be registered with the Branch. Although they are not required to remit taxes, they are required to file monthly returns detailing their movement of petroleum products. This information is to be used to help determine whether all products available for taxable consumption are accounted for.

Casual importers are not registered with the Branch and are required to remit the appropriate provincial tax to the Canada Customs and Revenue Agency at the time they import a taxable product. The Canada Customs and Revenue Agency then forwards the tax to the Ministry.

Gasoline and Diesel Fuel Production

Four refiners operating five refineries account for all the petroleum products produced in Ontario. Each of these refiners is also a designated collector and as such is required to file the applicable gasoline and diesel fuel tax returns, which detail tax-exempt sales to and purchases from other collectors, imports, exports, and taxable sales to non-collectors.

However, we noted that the Ministry did not require the refiners to report the amount of gasoline and diesel fuel they actually produced. As a result, the Ministry cannot assess whether all gasoline and diesel fuel that is produced is reported as sold or otherwise accounted for and that the correct amount of tax is ultimately declared and received.

This information should be readily available as we understand that refiners maintain detailed records of gasoline and diesel fuel produced and that they already provide that information in summary form to Statistics Canada.

Recommendation

To help ensure that all gasoline and diesel fuel produced in Ontario is accounted for as either taxable or tax-exempt sales, the Ministry should require refiners to submit information on gasoline and diesel fuel produced, compare it to reported taxable and tax-exempt sales, and periodically verify the accuracy of the production information received.

We also concluded that the Ministry needed to develop, implement, and monitor performance indicators to assess the extent to which it is meeting its objectives of encouraging voluntary compliance and deterring tax evasion.

It is our view that the improvements needed to ensure that all applicable gasoline, fuel, and tobacco taxes are collected will require a significant development of information technology support. Without such support, the complexity and sheer volume of the activities required to collect taxes will make it unlikely that the Ministry will be able to cost-effectively identify potential, undeclared taxes.

Overall Ministry Response

Changes are needed in ministry policies and procedures and especially in supporting information technology in order to attain the goal of total accountability for all gasoline, fuel, and tobacco products at all stages of the production and distribution process.

The audit report raises valid issues, many of which the Ministry was already in the process of addressing or had recognized as areas in which to take action. It is our intent to address any required changes, as detailed in the report, in a manner that balances priorities in terms of risk against the resources available.

DETAILED AUDIT OBSERVATIONS

GASOLINE AND DIESEL FUEL TAXES

Gasoline and fuel used for transportation purposes are currently taxed as outlined in the following table.

Petroleum Product Taxation, 2000/01

Product	Tax Cents Per Litre	Revenue ($ millions)
gasoline – leaded	17.7	2,045
gasoline – unleaded	14.7	
diesel fuel	14.3	613
diesel fuel – used by railroads	4.5	30
propane fuel	4.3	10
aviation fuel	2.7	56

Source of data: Ministry of Finance

For the 2000/01 fiscal year, the Ministry collected over $2 billion in gasoline tax and $643 million in diesel fuel tax. Approximately 98% of the gasoline tax and 94% of the diesel fuel tax were remitted by 18 gasoline tax and 13 diesel fuel tax collectors, respectively.

Diesel fuel that is used in heating, in off-road vehicles, and in machinery such as that used in manufacturing, farming, and construction is not taxed. To distinguish taxable from tax-exempt diesel fuel, tax-exempt fuel is dyed at the refinery or at bulk storage facilities while taxable fuel is left clear.

Refiners and wholesalers that, in the previous year, sold not less than 51% of their product by volume at wholesale are designated as tax collectors by the Ministry. Tax is imposed whenever a designated collector sells a taxable product to a non-collector or a registered importer that is not a collector imports taxable products. Sales between collectors and sales for export are tax exempt. Collectors, and importers that are not collectors, are required to file monthly tax returns along with payment of the correct amount of tax.

In addition, exporters and inter-jurisdictional transporters of petroleum products must be registered with the Branch. Although they are not required to remit taxes, they are required to file monthly returns detailing their movement of petroleum products. This information is to be used to help determine whether all products available for taxable consumption are accounted for.

Casual importers are not registered with the Branch and are required to remit the appropriate provincial tax to the Canada Customs and Revenue Agency at the time they import a taxable product. The Canada Customs and Revenue Agency then forwards the tax to the Ministry.

Gasoline and Diesel Fuel Production

Four refiners operating five refineries account for all the petroleum products produced in Ontario. Each of these refiners is also a designated collector and as such is required to file the applicable gasoline and diesel fuel tax returns, which detail tax-exempt sales to and purchases from other collectors, imports, exports, and taxable sales to non-collectors.

However, we noted that the Ministry did not require the refiners to report the amount of gasoline and diesel fuel they actually produced. As a result, the Ministry cannot assess whether all gasoline and diesel fuel that is produced is reported as sold or otherwise accounted for and that the correct amount of tax is ultimately declared and received.

This information should be readily available as we understand that refiners maintain detailed records of gasoline and diesel fuel produced and that they already provide that information in summary form to Statistics Canada.

Recommendation

To help ensure that all gasoline and diesel fuel produced in Ontario is accounted for as either taxable or tax-exempt sales, the Ministry should require refiners to submit information on gasoline and diesel fuel produced, compare it to reported taxable and tax-exempt sales, and periodically verify the accuracy of the production information received.

Ministry Response

The Ministry had reviewed in the past the legal implications of requiring that refiners submit detailed information on gasoline and diesel production. We will revisit this review.

In the meantime, the feasibility of obtaining available information on production volumes to gain further assurance of the accuracy of reported sales will be further investigated. In that regard, the Ministry will consult with Statistics Canada and Canada Customs and Revenue Agency Excise officials. The results of these inquiries will be used to determine whether production information can be obtained to compare with, and verify, sales figures.

Redesigned return forms for collectors, under the Ministry's re-engineering initiative, will provide additional inventory information to assist in verification of reported taxable and tax-exempt sales.

Gasoline and Diesel Fuel Tax Return Processing

Collectors file gasoline and fuel tax returns using a prescribed format that includes supporting schedules detailing tax-exempt sales to and purchases from other collectors, imports and exports, and the total amount of taxable and other tax-exempt sales.

Although the Branch has initiated steps to establish a desk audit function (that is, a function that would analyze and perform a detailed verification of the information reported in the tax returns), it did not have a desk audit function in place during the period of our audit. Therefore, to help compensate for that lack, we would have expected the tax return review process to be as comprehensive as possible and to include such controls as agreeing reported tax-exempt purchases and sales between collectors and verifying reported imports and exports with the independent information submitted by inter-jurisdictional transporters.

Our review of the Branch's tax return processing function and a sample of tax returns indicated that such comparisons had not been made and that compensatory procedures had not been carried out. Branch staff only conducted a cursory review of the returns, which consisted essentially of ensuring that the required supporting schedules are attached and that they are arithmetically correct and agree in total to the information in the tax return. As a result, branch staff could not determine whether the correct amount of tax had been declared and remitted or identify areas requiring further review. Our specific concerns are detailed below.

TAX-EXEMPT SALES AND PURCHASES BETWEEN COLLECTORS

To ensure that all reported tax-exempt sales between collectors are valid and should not have been taxed, it is imperative that tax-exempt sales reported by one collector are agreed to the tax-exempt purchases reported by the purchasing collector.

We noted that while the Ministry did not normally undertake such comparisons, it did do so for the tax-exempt sales reported by one large collector from August 1995 to April 1999. Although this comparison identified a number of significant variances, none of them had been followed up or had resulted in additional tax assessed.

We reviewed a sample of tax-exempt sales reported by five major collectors during a consecutive 10-month period in the 1999/2000 fiscal year and noted that:

- Collectively, the tax-exempt sales reported by these collectors exceeded the tax-exempt purchases reported by the purchasing collectors by more than 160 million litres. This represents a potential tax loss of almost $24 million if the unaccounted-for litres were sold for taxable consumption but not reported as such.
- A number of reported tax-exempt sales to other collectors totalling approximately 74 million litres were in fact sales to non-collectors and as such should have been taxed. This represents a potential tax loss of about $11 million since the Ministry could not demonstrate that the litres involved eventually got captured in the tax system or were not sold for taxable purposes.

Although we expressed similar concerns in our 1995 report, this situation had not yet been satisfactorily addressed by the Branch.

We also noted that collectors frequently entered into various complex swap agreements, whereby they traded petroleum products on an in-kind basis and did not report the trades as sales. Because what constitutes a sale was not clearly communicated, it was unclear whether or not any of these trades should have been declared as sales.

Recommendation

To help ensure that the correct amounts of gasoline and diesel fuel taxes are declared and paid, the Ministry should:

- **verify the accuracy of reported tax-exempt sales and purchases between collectors and ensure that large discrepancies are identified, followed up, and assessed where warranted; and**
- **clearly communicate what constitutes a sale.**

Ministry Response

Although the Ministry is of the view that most large discrepancies are attributable to complex product "swap" arrangements that result in no loss of tax, there is a need to obtain additional information and reconcile this type of product movement. The Ministry will investigate and, where appropriate, propose additional reporting and reconciliation requirements.

A tax bulletin will be issued to ensure that the definition of sale is clearly understood.

GASOLINE AND DIESEL FUEL IMPORTS AND EXPORTS

Inter-jurisdictional transporters are required to file monthly returns with the Branch detailing the source, destination, volume of gasoline or diesel fuel transported, and particulars of the importer/exporter. In addition, in the case of exports to the United States, the exporters' returns must include U.S. customs documentation, bills of lading, and export invoices to support the

Ministry Response

The Ministry had reviewed in the past the legal implications of requiring that refiners submit detailed information on gasoline and diesel production. We will revisit this review.

In the meantime, the feasibility of obtaining available information on production volumes to gain further assurance of the accuracy of reported sales will be further investigated. In that regard, the Ministry will consult with Statistics Canada and Canada Customs and Revenue Agency Excise officials. The results of these inquiries will be used to determine whether production information can be obtained to compare with, and verify, sales figures.

Redesigned return forms for collectors, under the Ministry's re-engineering initiative, will provide additional inventory information to assist in verification of reported taxable and tax-exempt sales.

Gasoline and Diesel Fuel Tax Return Processing

Collectors file gasoline and fuel tax returns using a prescribed format that includes supporting schedules detailing tax-exempt sales to and purchases from other collectors, imports and exports, and the total amount of taxable and other tax-exempt sales.

Although the Branch has initiated steps to establish a desk audit function (that is, a function that would analyze and perform a detailed verification of the information reported in the tax returns), it did not have a desk audit function in place during the period of our audit. Therefore, to help compensate for that lack, we would have expected the tax return review process to be as comprehensive as possible and to include such controls as agreeing reported tax-exempt purchases and sales between collectors and verifying reported imports and exports with the independent information submitted by inter-jurisdictional transporters.

Our review of the Branch's tax return processing function and a sample of tax returns indicated that such comparisons had not been made and that compensatory procedures had not been carried out. Branch staff only conducted a cursory review of the returns, which consisted essentially of ensuring that the required supporting schedules are attached and that they are arithmetically correct and agree in total to the information in the tax return. As a result, branch staff could not determine whether the correct amount of tax had been declared and remitted or identify areas requiring further review. Our specific concerns are detailed below.

TAX-EXEMPT SALES AND PURCHASES BETWEEN COLLECTORS

To ensure that all reported tax-exempt sales between collectors are valid and should not have been taxed, it is imperative that tax-exempt sales reported by one collector are agreed to the tax-exempt purchases reported by the purchasing collector.

We noted that while the Ministry did not normally undertake such comparisons, it did do so for the tax-exempt sales reported by one large collector from August 1995 to April 1999. Although this comparison identified a number of significant variances, none of them had been followed up or had resulted in additional tax assessed.

We reviewed a sample of tax-exempt sales reported by five major collectors during a consecutive 10-month period in the 1999/2000 fiscal year and noted that:

- Collectively, the tax-exempt sales reported by these collectors exceeded the tax-exempt purchases reported by the purchasing collectors by more than 160 million litres. This represents a potential tax loss of almost $24 million if the unaccounted-for litres were sold for taxable consumption but not reported as such.
- A number of reported tax-exempt sales to other collectors totalling approximately 74 million litres were in fact sales to non-collectors and as such should have been taxed. This represents a potential tax loss of about $11 million since the Ministry could not demonstrate that the litres involved eventually got captured in the tax system or were not sold for taxable purposes.

Although we expressed similar concerns in our 1995 report, this situation had not yet been satisfactorily addressed by the Branch.

We also noted that collectors frequently entered into various complex swap agreements, whereby they traded petroleum products on an in-kind basis and did not report the trades as sales. Because what constitutes a sale was not clearly communicated, it was unclear whether or not any of these trades should have been declared as sales.

Recommendation

To help ensure that the correct amounts of gasoline and diesel fuel taxes are declared and paid, the Ministry should:

- **verify the accuracy of reported tax-exempt sales and purchases between collectors and ensure that large discrepancies are identified, followed up, and assessed where warranted; and**
- **clearly communicate what constitutes a sale.**

Ministry Response

Although the Ministry is of the view that most large discrepancies are attributable to complex product "swap" arrangements that result in no loss of tax, there is a need to obtain additional information and reconcile this type of product movement. The Ministry will investigate and, where appropriate, propose additional reporting and reconciliation requirements.

A tax bulletin will be issued to ensure that the definition of sale is clearly understood.

GASOLINE AND DIESEL FUEL IMPORTS AND EXPORTS

Inter-jurisdictional transporters are required to file monthly returns with the Branch detailing the source, destination, volume of gasoline or diesel fuel transported, and particulars of the importer/exporter. In addition, in the case of exports to the United States, the exporters' returns must include U.S. customs documentation, bills of lading, and export invoices to support the tax-exempt exports reported on the return. We would have expected this information to be used to confirm the accuracy of reported imports and tax-exempt exports to determine whether all gasoline and diesel fuel had been accounted for and whether the correct amount of taxes had been declared and paid.

As we noted in our 1995 Annual Report, and again in our current audit, the Branch could not verify the accuracy of reported imports and tax-exempt exports with information provided by the inter-jurisdictional transporters, since in most cases the transporter had not been identified in the import/export returns. In addition, we found that, in most cases, the Branch had not received the required customs documentation, bills of lading, and export invoices for products exported to the United States.

We reviewed the returns from a large exporter covering a consecutive 10-month period and found that the exporter had reported 111 million litres more in tax-exempt exports than could be substantiated by the available transporters' returns. The risk is that the product was actually sold in Ontario for taxable purposes and the tax was never remitted to the Ministry. If this occurred, the tax loss could be as high as $16.3 million.

We also noted that the most recent list of registered importers available at the two border crossings we visited in late 2000 was dated August 1989. Our review of this list indicated that over 60% of the importers listed were no longer registered with the Ministry. Only registered importers are permitted to import gasoline or diesel fuel without paying the applicable tax at the time of import. An out-of-date list creates a risk that importers that are on the list but no longer registered could bring petroleum products into Ontario, sell them, and collect the tax but never remit it to the Ministry.

Inter-jurisdictional Pipeline Transporters

Although the precise amount is not known, a significant proportion of refined petroleum products are transported into and out of Ontario through pipelines. Since the introduction of the current *Gasoline Tax Act* and *Fuel Tax Act* on January 1, 1992, pipeline companies transporting gasoline or fuel into or out of Ontario have been required to register as inter-jurisdictional transporters and, as such, to comply with the reporting requirements.

However, even though the Ministry knew that at least two pipelines transported taxable products into and out of Ontario, no pipelines had been registered as inter-jurisdictional carriers at the start of the 2000/01 fiscal year. We also noted that:

- Although one of the two known pipelines was eventually registered as an inter-jurisdictional carrier during the 2000/01 fiscal year, it had yet to file a return, in large part because the Ministry had not yet developed the appropriate forms.

  In addition, a ministry audit of this pipeline company found that it transported approximately 3.3 billion litres of potentially taxable gasoline and fuel into and out of Ontario during 1999, some of it potentially on its own account, and, therefore, should also have been registered as an importer and exporter but was not.

- The second pipeline had not yet been registered.

Recommendation

To help ensure that all imports and exports of gasoline and diesel fuel are accounted for and that the correct amount of tax is declared and paid, the Ministry should:

- **ensure that all gasoline and diesel fuel tax collectors and inter-jurisdictional transporters, including pipelines, submit the information required of them by law;**
- **verify the accuracy of reported imports and exports by comparing them to information provided by inter-jurisdictional transporters—when significant variances are identified, they should be investigated and resolved on a timely basis;**
- **provide the Canada Customs and Revenue Agency with an up-to-date list of registered importers to ensure that unregistered importers pay the applicable tax at the time of import; and**
- **develop the appropriate tax return forms for inter-jurisdictional pipeline transporters.**

Ministry Response

The Ministry will review record-keeping procedures and reporting requirements for collectors with respect to imports and exports. Reporting requirements have been reinforced with inter-jurisdictional transporters and they will be more closely monitored and cross-checked against collectors' reports. However, consideration will be given to facilitating or enhancing reporting requirements for the industry, for example, by introducing electronic processes.

Prior to this audit, the Ministry was working with the Canada Customs and Revenue Agency. As a result of this work, the Ministry will soon be providing the Canada Customs and Revenue Agency with updated lists of registered importers, in electronic format and on a regular basis.

Appropriate tax return forms will be developed for pipeline transporters.

Gasoline Tax Refunds

Under provisions of the *Gasoline Tax Act,* natives who hold a valid provincial Certificate of Exemption are entitled to purchase gasoline tax-exempt on a native reserve for their personal use.

For these tax-exempt sales, the retailer must complete a voucher indicating the date of sale, the purchaser's name and vehicle licence number, the number of litres sold, and total sales proceeds net of tax. The voucher must also be signed by the purchaser and include an imprint of the Certificate of Exemption.

Recommendation

To help ensure that all imports and exports of gasoline and diesel fuel are accounted for and that the correct amount of tax is declared and paid, the Ministry should:

- **ensure that all gasoline and diesel fuel tax collectors and inter-jurisdictional transporters, including pipelines, submit the information required of them by law;**
- **verify the accuracy of reported imports and exports by comparing them to information provided by inter-jurisdictional transporters—when significant variances are identified, they should be investigated and resolved on a timely basis;**
- **provide the Canada Customs and Revenue Agency with an up-to-date list of registered importers to ensure that unregistered importers pay the applicable tax at the time of import; and**
- **develop the appropriate tax return forms for inter-jurisdictional pipeline transporters.**

Ministry Response

The Ministry will review record-keeping procedures and reporting requirements for collectors with respect to imports and exports. Reporting requirements have been reinforced with inter-jurisdictional transporters and they will be more closely monitored and cross-checked against collectors' reports. However, consideration will be given to facilitating or enhancing reporting requirements for the industry, for example, by introducing electronic processes.

Prior to this audit, the Ministry was working with the Canada Customs and Revenue Agency. As a result of this work, the Ministry will soon be providing the Canada Customs and Revenue Agency with updated lists of registered importers, in electronic format and on a regular basis.

Appropriate tax return forms will be developed for pipeline transporters.

Gasoline Tax Refunds

Under provisions of the *Gasoline Tax Act*, natives who hold a valid provincial Certificate of Exemption are entitled to purchase gasoline tax-exempt on a native reserve for their personal use.

For these tax-exempt sales, the retailer must complete a voucher indicating the date of sale, the purchaser's name and vehicle licence number, the number of litres sold, and total sales proceeds net of tax. The voucher must also be signed by the purchaser and include an imprint of the Certificate of Exemption.

Since in most cases the retailer has already paid the gasoline tax with the purchase of gasoline inventory, the retailer can recover the amount of the tax paid in one of two ways:

- by submitting a request for a refund together with the supporting exemption vouchers directly to the Ministry; or
- if the retailer's bulk supplier is a collector, by providing the exemption vouchers to that collector for credit. The collector in turn submits the vouchers to the Ministry and deducts the amount of tax previously paid on the next return.

Although the Ministry did not maintain information with respect to the total amount of gasoline tax refunds issued, based on our review of a sample of these refunds, we estimated that the Ministry had refunded about $18 million during the 1999/2000 fiscal year. Approximately half of that amount was claimed directly from the Ministry and half was claimed through collector returns.

Regardless of how a refund is requested, all refund claims must be reviewed by the Branch for completeness and accuracy as well as for high volume or otherwise unusual purchases. When considered necessary, the Ministry is to contact the retailer or purchaser to obtain additional information needed to verify the tax-exempt status of the purchases.

We reviewed a sample of refund claims submitted directly to the Ministry and a sample of claims submitted through collectors' returns. We found that the Ministry's review of the refund claims made directly to it by retailers was generally satisfactory and in many cases included adjustments to ensure the appropriateness of the refunded amount.

However, we found no evidence that the Ministry had reviewed the refund claims submitted through collector returns. Our review of such claims indicated a number of questionable items, for example:

- Over a two-day period, one individual claimed tax exemptions for 18 separate purchases from one retailer totalling 690 litres for one vehicle.
- Over another two-day period, another individual claimed tax exemptions for 18 separate purchases from the same retailer totalling 677 litres for one vehicle.
- In many cases, submitted refund vouchers lacked required information, such as the vehicle licence number or the imprint of the Certificate of Exemption, and therefore should have been followed up or disallowed.

Recommendation

To ensure that only eligible gasoline sales are exempted from tax, the Ministry should review refund vouchers submitted by collectors for completeness and reasonableness of exemptions claimed based on assessed risks and follow up on questionable or incomplete vouchers to determine whether or not the purchases qualify as tax-exempt.

Ministry Response

During the audit's sample period, resources had been directed away from this specific activity and assigned to training, documenting, and testing activities

related to a major systems implementation. The process of reviewing retailer claims submitted through collector returns was re-initiated in June 2001 and will be continued on a regular and ongoing basis. As part of the normal vetting process, questionable or incomplete vouchers will be followed up. Where significant or recurring non-compliance is noted, the retailer's permission to route claims through the collector will be withdrawn.

Fuel Acquisition Permits

Under provisions of the *Fuel Tax Act*, certain consumers may apply for a Fuel Acquisition Permit that allows them to purchase tax-exempt, clear diesel fuel for specific purposes such as tobacco curing, kerosene repackaging, and fueling machinery used in manufacturing processes. Permit holders are required to file an annual return with the Branch specifying the amount of tax-exempt fuel purchased and the purposes for which it was used. For the 1999/2000 fiscal year, there were approximately 370 Fuel Acquisition Permit holders.

Based on our discussions with branch staff and our review of a sample of permit holder returns filed during the past three years, we found that the Branch:

- did not maintain information or otherwise track the reasonableness of tax-exempt diesel fuel purchases either as they were reported by individual permit holders or in total;
- did not conduct periodic audits or inspections of all types of permit holder facilities to ensure that tax-exempt fuel purchases were used only for the purposes intended; and
- automatically renewed permits each year for tobacco curers, regardless of whether or not tax-exempt fuel purchases were reported for the previous year. For example, we found in our review of a sample of tobacco curer permit returns for the 1998/99 fiscal year that half of them indicated that natural gas was being used rather than diesel fuel. Nevertheless, those permits were automatically renewed for the following year.

Recommendation

To ensure that tax-exempt diesel fuel purchased by holders of Fuel Acquisition Permits is used only for eligible purposes, the Ministry should:

- **monitor and assess the reasonableness of the tax-exempt diesel fuel purchases reported by Fuel Acquisition Permit holders; and**
- **conduct periodic audits or inspections of all types of permit holder facilities, based on the assessed risks.**

Ministry Response

In addition to work already undertaken, the Ministry will consider additional methods to track tax-exempt product acquisitions, assess permit holder risk vis-à-vis other enforcement priorities, and assess the necessity of certain tobacco curers retaining their permits.

Since in most cases the retailer has already paid the gasoline tax with the purchase of gasoline inventory, the retailer can recover the amount of the tax paid in one of two ways:

- by submitting a request for a refund together with the supporting exemption vouchers directly to the Ministry; or
- if the retailer's bulk supplier is a collector, by providing the exemption vouchers to that collector for credit. The collector in turn submits the vouchers to the Ministry and deducts the amount of tax previously paid on the next return.

Although the Ministry did not maintain information with respect to the total amount of gasoline tax refunds issued, based on our review of a sample of these refunds, we estimated that the Ministry had refunded about $18 million during the 1999/2000 fiscal year. Approximately half of that amount was claimed directly from the Ministry and half was claimed through collector returns.

Regardless of how a refund is requested, all refund claims must be reviewed by the Branch for completeness and accuracy as well as for high volume or otherwise unusual purchases. When considered necessary, the Ministry is to contact the retailer or purchaser to obtain additional information needed to verify the tax-exempt status of the purchases.

We reviewed a sample of refund claims submitted directly to the Ministry and a sample of claims submitted through collectors' returns. We found that the Ministry's review of the refund claims made directly to it by retailers was generally satisfactory and in many cases included adjustments to ensure the appropriateness of the refunded amount.

However, we found no evidence that the Ministry had reviewed the refund claims submitted through collector returns. Our review of such claims indicated a number of questionable items, for example:

- Over a two-day period, one individual claimed tax exemptions for 18 separate purchases from one retailer totalling 690 litres for one vehicle.
- Over another two-day period, another individual claimed tax exemptions for 18 separate purchases from the same retailer totalling 677 litres for one vehicle.
- In many cases, submitted refund vouchers lacked required information, such as the vehicle licence number or the imprint of the Certificate of Exemption, and therefore should have been followed up or disallowed.

Recommendation

To ensure that only eligible gasoline sales are exempted from tax, the Ministry should review refund vouchers submitted by collectors for completeness and reasonableness of exemptions claimed based on assessed risks and follow up on questionable or incomplete vouchers to determine whether or not the purchases qualify as tax-exempt.

Ministry Response

During the audit's sample period, resources had been diverted away from this specific activity and assigned to training, documenting, and testing activities

related to a major systems implementation. The process of reviewing retailer claims submitted through collector returns was re-initiated in June 2001 and will be continued on a regular and ongoing basis. As part of the normal vetting process, questionable or incomplete vouchers will be followed up. Where significant or recurring non-compliance is noted, the retailer's permission to route claims through the collector will be withdrawn.

Fuel Acquisition Permits

Under provisions of the *Fuel Tax Act,* certain consumers may apply for a Fuel Acquisition Permit that allows them to purchase tax-exempt, clear diesel fuel for specific purposes such as tobacco curing, kerosene repackaging, and fueling machinery used in manufacturing processes. Permit holders are required to file an annual return with the Branch specifying the amount of tax-exempt fuel purchased and the purposes for which it was used. For the 1999/2000 fiscal year, there were approximately 370 Fuel Acquisition Permit holders.

Based on our discussions with branch staff and our review of a sample of permit holder returns filed during the past three years, we found that the Branch:

- did not maintain information or otherwise track the reasonableness of tax-exempt diesel fuel purchases either as they were reported by individual permit holders or in total;
- did not conduct periodic audits or inspections of all types of permit holder facilities to ensure that tax-exempt fuel purchases were used only for the purposes intended; and
- automatically renewed permits each year for tobacco curers, regardless of whether or not tax-exempt fuel purchases were reported for the previous year. For example, we found in our review of a sample of tobacco curer permit returns for the 1998/99 fiscal year that half of them indicated that natural gas was being used rather than diesel fuel. Nevertheless, those permits were automatically renewed for the following year.

Recommendation

To ensure that tax-exempt diesel fuel purchased by holders of Fuel Acquisition Permits is used only for eligible purposes, the Ministry should:

- **monitor and assess the reasonableness of the tax-exempt diesel fuel purchases reported by Fuel Acquisition Permit holders; and**
- **conduct periodic audits or inspections of all types of permit holder facilities, based on the assessed risks.**

Ministry Response

In addition to work already undertaken, the Ministry will consider additional methods to track tax-exempt product acquisitions, assess permit holder risk vis-à-vis other enforcement priorities, and assess the necessity of certain tobacco curers retaining their permits.

TOBACCO TAXES

Cigarettes and cut tobacco are taxed at 2.65 cents per cigarette and 2.65 cents per gram of cut tobacco, and cigars are taxed at 45% of the price at retail. For the 2000/01 fiscal year, tobacco tax receipts totalled $493 million, approximately 98% of which was remitted by 71 collectors.

Any wholesaler of tobacco products that applies to the Ministry may be designated a tobacco tax collector. Collectors are required to file monthly tax returns and remit taxes under one of the two methods described below.

- Under the purchase method, collectors must file tax returns on the 28th day of each month for the previous month and remit 90% of the taxes owing on tobacco products purchased from any of the three domestic manufacturers during the previous month. The remaining 10% of tax is to be remitted the following month. All subsequent sales are tax in (that is, they include the tax).
- Under the sales method, collectors file monthly tax returns on the 10th day of each month for the previous month, but remit tax based on sales to non-collectors in the previous month.

At the time of our audit, the Ministry estimated that approximately 70% of tobacco tax was remitted under the purchase method and 30% was remitted under the sales method.

Tobacco-product manufacturers and importers are required to submit monthly sales reports, often referred to as tax memos, which detail sales to collectors. As well, inter-jurisdictional transporters file monthly returns indicating the source, destination, quantity, and ownership of tobacco products transported into and out of Ontario.

Tobacco Tax Return Processing

Our review of the Ministry's tobacco tax return processing procedures and a sample of tobacco tax returns indicated that the Ministry was processing returns satisfactorily. Sales to individual collectors, as reported by manufacturers and importers on tax memos submitted to the Ministry, were reconciled to collector tax returns to ensure that the correct amount of tax had been declared and paid under either the purchase or sales method of remitting tobacco tax.

However, as the following sections demonstrate, the Ministry needed to enhance its existing procedures to ensure that all manufactured, imported, and exported tobacco products are accounted for and that it ultimately receives all of the tax that is due.

CIGARETTE PRODUCTION AND CONTROL

There are three large cigarette manufacturers operating in Ontario. Cigarettes that are manufactured for taxable consumption in Ontario are marked with a yellow tear-tape in the wrap of each package. Cigarettes manufactured for tax-free export or tax-exempt consumption on native reserves are marked with a tear-tape coloured other than yellow.

To help ensure that all cigarettes manufactured for consumption in Ontario can be accounted for, the prescribed monthly tax return completed by cigarette manufacturers includes a schedule requesting information about the number of Ontario-marked cigarettes produced, shipped, and on hand at the end of each month. There are no similar requirements for cigarettes not marked for consumption in Ontario.

In addition, while the monthly tax return also includes a schedule for importers to account for the tax-paid stamps applied to imported cigarettes, there is no requirement for domestic manufacturers to account for the yellow tear-tape material acquired and used to mark Ontario tax-paid cigarettes.

We reviewed a sample of monthly tax returns for the three large domestic cigarette manufacturers and found that one of them had not completed the required schedules. As a result, the Ministry could not determine whether or not all cigarettes manufactured by that manufacturer for taxable consumption in Ontario had been reported as taxable sales or had otherwise been accounted for.

We also noted that:

- by not holding cigarette manufacturers accountable for all cigarettes manufactured, shipped, and on hand at the end of each month, it had no assurance that cigarettes manufactured and marked for consumption outside Ontario were not diverted for untaxed consumption in Ontario; and
- by not holding cigarette manufacturers accountable for the yellow tear-tape material acquired and used, the Ministry had no assurance that it was applied only to cigarettes that had been reported as Ontario-taxable sales.

In 1998, a Canada-wide Tobacco Marking Steering Committee with membership from all 10 provinces and the Canada Customs and Revenue Agency was formed to review the system for marking tobacco products and to propose a more effective one to decrease tax evasion and smuggling. We understand that the proposed system will in all likelihood require the registration and licensing of tear-tape manufacturers. Such licensed manufacturers will be required to sell tear-tape only to licensed cigarette manufacturers, with penalties and sanctions for non-compliance.

Recommendation

The Ministry should ensure that all cigarette manufacturers:

- **submit the required schedules indicating the number of Ontario-marked cigarettes produced, shipped, and on hand; and**
- **provide information about the amount of yellow tear-tape acquired and used.**

The Ministry should then use that information to assess the reasonableness of reported taxable sales.

Ministry Response

The Ministry will require additional inventory information from manufacturers on tax returns that have been redesigned under the re-engineering initiative to assist in determining the reasonableness of reported taxable sales. The requirement to report Ontario-marked production on monthly returns will be reinforced with the manufacturers.

In addition, while the monthly tax return also includes a schedule for importers to account for the tax-paid stamps applied to imported cigarettes, there is no requirement for domestic manufacturers to account for the yellow tear-tape material acquired and used to mark Ontario tax-paid cigarettes.

We reviewed a sample of monthly tax returns for the three large domestic cigarette manufacturers and found that one of them had not completed the required schedules. As a result, the Ministry could not determine whether or not all cigarettes manufactured by that manufacturer for taxable consumption in Ontario had been reported as taxable sales or had otherwise been accounted for.

We also noted that:

- by not holding cigarette manufacturers accountable for all cigarettes manufactured, shipped, and on hand at the end of each month, it had no assurance that cigarettes manufactured and marked for consumption outside Ontario were not diverted for untaxed consumption in Ontario; and
- by not holding cigarette manufacturers accountable for the yellow tear-tape material acquired and used, the Ministry had no assurance that it was applied only to cigarettes that had been reported as Ontario-taxable sales.

In 1998, a Canada-wide Tobacco Marking Steering Committee with membership from all 10 provinces and the Canada Customs and Revenue Agency was formed to review the system for marking tobacco products and to propose a more effective one to decrease tax evasion and smuggling. We understand that the proposed system will in all likelihood require the registration and licensing of tear-tape manufacturers. Such licensed manufacturers will be required to sell tear-tape only to licensed cigarette manufacturers, with penalties and sanctions for non-compliance.

Recommendation

The Ministry should ensure that all cigarette manufacturers:

- **submit the required schedules indicating the number of Ontario-marked cigarettes produced, shipped, and on hand; and**
- **provide information about the amount of yellow tear-tape acquired and used.**

The Ministry should then use that information to assess the reasonableness of reported taxable sales.

Ministry Response

The Ministry will require additional inventory information from manufacturers on tax returns that have been redesigned under the re-engineering initiative to assist in determining the reasonableness of reported taxable sales. The requirement to report Ontario-marked production on monthly returns will be reinforced with the manufacturers.

As noted, the issue of tear-tape use and registration of tape manufacturers is under review by an inter-jurisdictional tobacco marking committee, chaired by Ontario.

TOBACCO IMPORTS AND EXPORTS

As was the case for petroleum product imports and exports, inter-jurisdictional tobacco transporters are required to file monthly returns disclosing the source, destination, amount, and ownership of tobacco products transported. Where importers or exporters transport their own products, they must also provide the particulars of such movements with their monthly returns. This information is then to be used by the Branch to verify the completeness and accuracy of reported tobacco-product imports and exports and, ultimately, to ensure that the correct amount of tax has been declared and paid.

However, we found that inter-jurisdictional transporters of tobacco products were not providing the required information, with the result that the Branch could not verify the completeness or accuracy of reported imports and exports. In addition, the Branch did not corroborate reported imports and exports through other means, for example, by checking imports and exports against customs declarations.

Unregistered Importers

In contrast to petroleum product importers, unregistered tobacco product importers are allowed to bring products into Ontario from the United States without paying the applicable provincial tax at the border, even though federal taxes are paid there. Instead of collecting the provincial tax on imports into Ontario, the Canada Customs and Revenue Agency officers prepare a list of imports by unregistered importers that includes such information as the importer's name and address, the date, and the amounts of products imported.

However, we found that the Ministry did not routinely request this list and, therefore, could not determine whether the applicable tobacco taxes on imports by unregistered importers had been declared and paid.

In 1998, the Ministry made a one-time request to the Canada Customs and Revenue Agency for the list of imports by unregistered importers for the past several years. The Ministry then audited five of the unregistered importers to determine whether the correct amount of tax had been paid. All five audits resulted in assessments for taxes due ranging from $3,600 to $297,000 and totalling $450,000. We understand that no such audits have been undertaken since that time.

Recommendation

To ensure that tobacco product import and export reports are complete and accurate and that the correct amount of tax has been declared and paid, the Ministry should:

- **obtain the required information from all inter-jurisdictional transporters or, if that information is unavailable, obtain other evidence, such as customs declarations, to assess the completeness and accuracy of reported imports and exports; and**

- **regularly obtain information from the Canada Customs and Revenue Agency detailing tobacco-product imports by unregistered importers and use it to determine whether the correct amounts of tobacco tax have been declared and paid.**

Ministry Response

The Ministry will communicate and reinforce the reporting requirements for manufacturers, importers, exporters, and inter-jurisdictional transporters. Operational procedures will be enhanced to include cross-checks between transporter and importer/exporter returns.

Customs reports of tobacco products imported will be requested on a regular basis through the exchange-of-information agreement with the Canada Customs and Revenue Agency. In addition, the Ministry has been reviewing the border collection agreement to propose enhancements that will assist in our enforcement. Among other things, the enhancements include automatic electronic forwarding of customs reports. As in 1998, we will use these reports to assist in the selection of audits and to assess any liabilities.

Cigar Taxes

Although a population-based allocation system that limits the quantity of tax-exempt cigarettes that can be sold on native reserves has been established by regulation under the *Tobacco Tax Act,* no similar allocation system has been established for the sale of tax-exempt cigars. According to information provided to us by the Ministry, approximately 27 million cigars or 84% of all cigars sold in Ontario were sold on reserves exempt of tax. The Ministry estimated that 90% of these tax-exempt cigars were sold on just two reserves.

Recommendation

To ensure that the quantity of tax-exempt cigars sold on native reserves is reasonable, the Ministry should consider the need for an allocation system for cigars similar to the one in place for the sale of tax-exempt cigarettes, and if considered advisable, initiate its development.

Ministry Response

Regulatory change would be necessary to effect the extension of the allocation system to cigars. The Ministry will study the advisability of moving to such a system.

As noted, the issue of tear-tape use and registration of tape manufacturers is under review by an inter-jurisdictional tobacco marking committee, chaired by Ontario.

TOBACCO IMPORTS AND EXPORTS

As was the case for petroleum product imports and exports, inter-jurisdictional tobacco transporters are required to file monthly returns disclosing the source, destination, amount, and ownership of tobacco products transported. Where importers or exporters transport their own products, they must also provide the particulars of such movements with their monthly returns. This information is then to be used by the Branch to verify the completeness and accuracy of reported tobacco-product imports and exports and, ultimately, to ensure that the correct amount of tax has been declared and paid.

However, we found that inter-jurisdictional transporters of tobacco products were not providing the required information, with the result that the Branch could not verify the completeness or accuracy of reported imports and exports. In addition, the Branch did not corroborate reported imports and exports through other means, for example, by checking imports and exports against customs declarations.

Unregistered Importers

In contrast to petroleum product importers, unregistered tobacco product importers are allowed to bring products into Ontario from the United States without paying the applicable provincial tax at the border, even though federal taxes are paid there. Instead of collecting the provincial tax on imports into Ontario, the Canada Customs and Revenue Agency officers prepare a list of imports by unregistered importers that includes such information as the importer's name and address, the date, and the amounts of products imported.

However, we found that the Ministry did not routinely request this list and, therefore, could not determine whether the applicable tobacco taxes on imports by unregistered importers had been declared and paid.

In 1998, the Ministry made a one-time request to the Canada Customs and Revenue Agency for the list of imports by unregistered importers for the past several years. The Ministry then audited five of the unregistered importers to determine whether the correct amount of tax had been paid. All five audits resulted in assessments for taxes due ranging from $3,600 to $297,000 and totalling $450,000. We understand that no such audits have been undertaken since that time.

Recommendation

To ensure that tobacco product import and export reports are complete and accurate and that the correct amount of tax has been declared and paid, the Ministry should:

- **obtain the required information from all inter-jurisdictional transporters or, if that information is unavailable, obtain other evidence, such as customs declarations, to assess the completeness and accuracy of reported imports and exports; and**

- **regularly obtain information from the Canada Customs and Revenue Agency detailing tobacco product imports by all registered importers and use it to determine whether the correct amounts of tobacco tax have been declared and paid.**

Ministry Response

The Ministry will communicate and reinforce the reporting requirements for manufacturers, importers, exporters, and interjurisdictional transporters. Operational procedures will be enhanced to include reconciliation between transporter and importer/exporter returns.

Customs reports of tobacco products imported will be requested on a regular basis through the exchange-of-information agreement with the Canada Customs and Revenue Agency. In addition, the Ministry has been reviewing the border collection agreement to propose enhancements that will assist in our enforcement. Among other things, the enhancements include automatic electronic forwarding of customs reports. As in 1998, we will use these reports to assist in the selection of audits and to assess any liabilities.

Cigar Taxes

Although a population-based allocation system that limits the quantity of tax-exempt cigarettes that can be sold on native reserves has been established by regulation under the *Tobacco Tax Act*, no similar allocation system has been established for the sale of tax-exempt cigars. According to information provided to us by the Ministry, approximately 27 million cigars or 84% of all cigars sold in Ontario were sold on reserves exempt of tax. The Ministry estimated that 90% of these tax-exempt cigars were sold on just two reserves.

Recommendation

To ensure that the quantity of tax-exempt cigars sold on native reserves is reasonable, the Ministry should consider the need for an allocation system for cigars similar to the one in place for the sale of tax-exempt cigarettes, and if considered advisable, initiate its development.

Ministry Response

Regulatory change would be necessary to effect the extension of the allocation system to cigars. The Ministry will study the advisability of moving to such a system.

Tobacco Tax Increases

To reduce the incidence of smoking and to raise additional revenue, the federal and provincial governments each increased tobacco taxes by $2 per carton of cigarettes as of April 6, 2001. Historically, such tax increases have resulted in increased illegal activities whereby cigarettes previously exported tax free to the United States are smuggled back into the province.

To combat such activities, the federal government has also introduced a tax on exported cigarettes as follows:

- $10 per carton of cigarettes on quantities up to 1.5% of a manufacturer's production in the previous year; and
- $22 per carton on quantities in excess of 1.5% of production in the previous year.

The Ministry expects that the introduction of the federal export tax will provide a powerful deterrent to the resurgence of smuggling networks such as those that flourished in the early 1990s.

SECURITY REQUIREMENTS

Effective January 1, 1992, the *Gasoline*, *Fuel*, and *Tobacco Tax* acts required that registrants—such as manufacturers, collectors, and importers—post financial security with the Ministry. The amount of required security varies with the type of registrant but is generally equal to the greater of the average three months' tax paid in the preceding year, or $1 million in the case of manufacturers and collectors and $10,000 to $500,000 for importers. We understand that registrants in operation prior to January 1, 1992 were exempted from the security requirements as follows:

- *Gasoline Tax* and *Fuel Tax* act registrants—provided they received ministry approval; and
- *Tobacco Tax Act* registrants—provided they entered into a Remittance Agreement with the Ministry.

One of the primary risks to the Ministry of not having adequate security is that a collector could collect tax but not remit the tax collected to the Ministry. By having the required security deposit, the Ministry minimizes this financial risk.

We reviewed the files for a number of exempted registrants and found that the Ministry:

- could not provide evidence of ministry approvals for the *Gasoline Tax* and *Fuel Tax* act registrants exempted; and
- could not locate the required Remittance Agreements for about one quarter of the *Tobacco Tax Act* registrants exempted.

In addition, the Ministry's continuing to exempt pre-1992 registrants is questionable in our view, particularly since all others are required to post security in the stipulated amounts.

We also reviewed a sample of files for registrants that had provided security and found that almost one third of them had not provided security in at least the minimum required amount. The shortfalls ranged from $480,000 to $13 million and averaged approximately 60% of the required amount.

Recommendation

To help protect its financial interests, the Ministry should:

- **consider whether its best interest would be served by requiring security from all registrants; and**
- **ensure that all registrants required to post security do so in the stipulated amount.**

Ministry Response

The Ministry will: (1) review the administrative "grandfathering" concession made available to some registrants; and (2) increase the frequency of review of the quantum of security provided by existing registrants.

GASOLINE, DIESEL FUEL, AND TOBACCO TAX AUDITS

As noted previously, the Branch did not have a desk audit function at the time of our audit. That fact, together with our concerns about the Branch's processing of gasoline, diesel fuel, and tobacco tax returns, make field audits all the more critical for detecting any undeclared or unremitted tax. We noted that for the last four years, the Branch's 22 gasoline and fuel tax field auditors generated an average of $8.7 million per year in assessments, and its two tobacco tax auditors generated an average of $3.9 million per year in assessments.

The Branch's Audit Procedures Manual sets out the type of work required during a field audit. We noted that the manual contains a number of useful audit procedures such as:

- summarizing information on the returns and attached schedules since the time of the last audit to identify any unusual trends, variances, or items requiring a more detailed review;
- confirming sales and purchases between collectors and reconciling them to supporting documentation, such as sales invoices and loading tickets; and
- reconciling imports and exports to third-party documents, such as sales agreements and customs documentation.

The Audit Procedures Manual also states that unreconciled items may be assessed tax for administrative purposes to prevent them from becoming statute barred (that is, to prevent them from becoming ineligible for reassessment by exceeding the time periods stipulated by legislation).

We reviewed a sample of audit working paper files for smaller audits and found that they were generally completed satisfactorily and in compliance with the requirements of the Ministry's Audit Procedures Manual. However, working paper files for audits of large collectors were less than satisfactory and did not clearly determine whether or not the correct amount of tax had been declared and paid. Deficiencies we noted in our review of large collector audit files included the following:

Recommendation

To help protect its financial interests, the Ministry should

- **consider whether its best interest would be served by requiring security from all registrants; and**
- **ensure that all registrants required to post security do so in the stipulated amount.**

Ministry Response

The Ministry will: (1) review the administrative "grandfathering" concession made available to some registrants; and (2) increase the frequency of review of the quantum of security provided by existing registrants.

GASOLINE, DIESEL FUEL, AND TOBACCO TAX AUDITS

As noted previously, the Branch did not have a desk audit function at the time of our audit. That fact, together with our concerns about the Branch's processing of gasoline, diesel fuel, and tobacco tax returns, make field audits all the more critical for detecting any undeclared or unremitted tax. We noted that for the last four years, the Branch's 22 gasoline and fuel tax field auditors generated an average of $8.7 million per year in assessments, and its two tobacco tax auditors generated an average of $3.9 million per year in assessments.

The Branch's Audit Procedures Manual sets out the type of work required during a field audit. We noted that the manual contains a number of useful audit procedures such as:

- summarizing information on the returns and attached schedules since the time of the last audit to identify any unusual trends, variances, or items requiring a more detailed review;
- confirming sales and purchases between collectors and reconciling them to supporting documentation, such as sales invoices and loading tickets; and
- reconciling imports and exports to third-party documents, such as sales agreements and customs documentation.

The Audit Procedures Manual also states that unreconciled items may be assessed tax for administrative purposes to prevent them from becoming statute barred (that is, to prevent them from becoming ineligible for reassessment by exceeding the time periods stipulated by legislation).

We reviewed a sample of audit working paper files for smaller audits and found that they were generally completed satisfactorily and in compliance with the requirements of the Ministry's Audit Procedures Manual. However, working paper files for audits of large collectors were less than satisfactory and did not clearly determine whether or not the correct amount of tax had been declared and paid. Deficiencies we noted in our review of large collector audit files included the following:

- We found no evidence that the auditors had performed the required variance analyses to identify areas of risk in need of further review.
- File documentation was generally poor. For example, most audit files did not contain audit programs detailing the type and extent of testing to be performed.
- In most cases, audit work consisted of comparing information between a collector's various internal reports rather than using third-party documentation for independent confirmation, as required by the Audit Procedures Manual.
- In almost all cases, we found little evidence of supervisory input at the planning stage or verification of the audit work done.

Even in cases where large discrepancies were identified during an audit, we often found no evidence that the discrepancies had been followed up on and resolved.

We also noted that the Branch generally tried to conduct audits on a three- to four-year cycle because tax returns become statute barred after four years. However, we found that the three, large, domestic tobacco-product manufacturers had not been audited for an extended period of time; the last audits had been completed in 1988, 1994, and 1996, respectively. As a result, tax returns for these manufacturers have been statute barred for periods ranging from one to nine years.

Recommendation

To ensure that audit work is completed satisfactorily and clearly determines whether or not the correct amount of gasoline, diesel fuel, and tobacco tax has been declared and paid, the Ministry should:

- **develop detailed audit programs that comply with the work requirements of the Ministry's own Audit Procedures Manual for inclusion in each audit file;**
- **encourage supervisory input at the planning stage to ensure high-risk areas are appropriately addressed;**
- **ensure that the required work is completed satisfactorily and that any unresolved variances are assessed when warranted to prevent the results of further audit work from becoming statute barred; and**
- **complete audits on a three- to four-year cycle to ensure that returns do not become statute barred.**

Ministry Response

The Ministry began an overhaul of audit programs prior to the commencement of this audit and this overhaul is now substantially complete. The revised audit programs, when fully implemented in the current fiscal year, will provide for better documentation of supervisory input at the planning stage and of the work done, such as the resolution of identified variances.

The Ministry's audit plan incorporates a four-year cycle for large collectors. The scope of these audits will be refined to better respond to identified risks including potential statute barring of material tax liabilities.

- We found no evidence that the auditors had performed the required variance analyses to identify areas of risk in need of further review.
- File documentation was generally poor. For example, most audit files did not contain audit programs detailing the type and extent of testing to be performed.
- In most cases, audit work consisted of comparing information between a collector's various internal reports rather than using third-party documentation for independent confirmation, as required by the Audit Procedures Manual.
- In almost all cases, we found little evidence of supervisory input at the planning stage or verification of the audit work done.

Even in cases where large discrepancies were identified during an audit, we often found no evidence that the discrepancies had been followed up on and resolved.

We also noted that the Branch generally tried to conduct audits on a three- to four-year cycle because tax returns become statute barred after four years. However, we found that the three, large, domestic tobacco-product manufacturers had not been audited for an extended period of time; the last audits had been completed in 1988, 1994, and 1996, respectively. As a result, tax returns for these manufacturers have been statute barred for periods ranging from one to nine years.

[illegible]

[illegible]

- [illegible]
- [illegible]
- [illegible]
- [illegible]

[illegible]

[illegible]

FIELD INSPECTIONS

The Branch's Field Inspection Unit is responsible for the following activities:

- roadside inspections of the running tanks on approximately 1.2 million diesel-powered vehicles to ensure that they are using only clear, tax-paid fuel—where the use of coloured, tax-exempt fuel is detected, further investigation is to be undertaken;
- terminal and bulk storage facility inspections at approximately 230 locations to ensure that fuel to be used for tax-exempt purposes has been correctly dyed;
- the testing of fuel samples from 1,700 service stations to ensure that clear fuel available for sale has not been previously dyed or otherwise tampered with; and
- tank wagon inspections at border points and within Ontario to ensure that the products transported have not been misdeclared.

All of these activities are carried out by just 12 inspectors, each of whom is assigned to a specific geographic area. For example, one inspector covers a large area from south of Lake Simcoe to Lake Ontario that includes Toronto. In our view, the number of inspectors is not sufficient to encourage voluntary compliance on a broad scale.

For the 1999/2000 fiscal year, all inspection activities combined resulted in assessments of approximately $260,000 in additional taxes and $80,000 in fines. In addition, the inspectors referred files for audit, the results of which are not included in these statistics.

The Ministry had not formally assessed the risks associated with various tax evasion schemes to determine the number, type, and the regional locations of inspections necessary to mitigate such risks. However, it had established total annual performance targets for the inspection function based on what was thought to be achievable given the available staff resources.

A comparison of actual inspection activities to the total number of activities planned indicated that the number of actual activities was often significantly lower than the number planned, as the following table demonstrates.

Comparison of Actual to Planned Inspection Activities, 1999/2000

Inspection Activities	Actual # of Inspections	Planned # of Inspections	Actual as a % of Planned Inspections
roadside inspections	2,956	3,600	82
fuel storage inspections	277	668	41
terminal and bulk storage facility inspections	810	1,032	78
propane facility inspections	55	288	19
tank wagon inspections	128	276	46
tobacco retailer inspections	199	528	38

Source of data: Ministry of Finance

We also noted that:

- Over the last four years, although the number of inspectors has remained constant, the total number of inspections has decreased by over half while taxes assessed have increased slightly.
- The Ministry did not track results by inspector, type of inspection, or inspection location to determine whether its resources were being effectively deployed.

Recommendation

To maximize the benefits of its inspection program for encouraging compliance with gasoline, diesel fuel, and tobacco tax requirements, the Ministry should:

- **assess whether the number of inspectors is sufficient to promote voluntary compliance on a broad scale;**
- **base its performance targets for the type, number, and location of inspections to be undertaken on the periodic assessment of known risks of tax evasion schemes; and**
- **monitor the results of inspections by type, number, and location, and periodically make any changes needed to ensure that its resources remain effectively deployed.**

Ministry Response

The Ministry will assess whether the number of inspectors is sufficient, refine performance targets, and monitor results.

BUSINESS PROCESS RE-ENGINEERING

Gasoline, diesel fuel, and tobacco tax-related returns and supporting schedules are filed and processed by the Branch in paper form, which requires branch staff to spend much time handling the voluminous amount of paper involved. However, the Ministry has recognized that, because of the Branch's limited staff resources and the preponderance of registrants that rely heavily on information technology, it needs to revise its own business processes by making more extensive use of information technology and developing a desk audit function.

In our 1995 report, we raised this issue and recommended that the feasibility of changing from a paper-based system to one based on electronic data interchange be investigated.

In 1997, the Ministry initiated a re-engineering project for the Branch's business processes. The project was initially scheduled for completion in 2001 and, among other things, was to include the development of such features as:

- electronic filing of tax returns and other required information;
- electronic tax return processing; and

- extensive data comparison and analyses for verifying the information provided and, for example, enhancing audit selection.

At the time of our audit in early 2001, the Ministry had developed information technology applications such as integrating the tax-refund claim processing function and monitoring tax-exempt sales of tobacco products to natives on reserves. However, work on the features noted above had not yet begun. The Ministry now expects that these features will not be completed before the end of the 2002/03 fiscal year.

Recommendation

Given that many of our preceding recommendations could be implemented most efficiently and effectively through the use of information technology, the Ministry should give priority to completing its business re-engineering project as soon as possible.

Ministry Response

Priority will be given to completing our business re-engineering project.

EFFECTIVENESS MEASURES

The commodity tax systems are essentially based on self-assessment by collectors whereby they are to voluntarily declare taxable sales and remit the correct amount of tax. The objective of the Branch's administrative policies and procedures is to encourage such voluntary compliance and, at the same time, minimize tax evasion.

The primary indicator of the degree of voluntary compliance and therefore of the success of the Branch's administrative policies and procedures, is the extent of tax evasion over time. The Ministry's Macroeconomics Analysis and Policy Branch is responsible for developing revenue forecasts and estimating potential tax losses attributable to tax evasion. However, our discussions with staff from that Branch indicated that no studies of tax evasion as it relates to commodity taxes had been conducted since the time of our last audit in 1995.

Aside from determining the nature and extent of tax evasion, the Motor Fuels and Tobacco Tax Branch could develop more direct performance indicators that, over time, could also provide insight into the impact of branch activities on voluntary compliance and the deterrence of tax evasion.

In our 1995 report on this program, we made similar observations and the Ministry responded that it was in the process of developing a management information system that would measure the effectiveness of its compliance and enforcement activities. However, we found that such a system had not yet been developed.

Recommendation

To determine the extent to which it is meeting its objectives of encouraging voluntary compliance with and deterring the evasion of gasoline, diesel fuel,

We also noted that:

- Over the last four years, although the number of inspectors has remained constant, the total number of inspections has decreased by over half while taxes assessed have increased slightly.
- The Ministry did not track results by inspector, type of inspection, or inspection location to determine whether its resources were being effectively deployed.

Recommendation

To maximize the benefits of its inspection program for encouraging compliance with gasoline, diesel fuel, and tobacco tax requirements, the Ministry should:

- **assess whether the number of inspectors is sufficient to promote voluntary compliance on a broad scale;**
- **base its performance targets for the type, number, and location of inspections to be undertaken on the periodic assessment of known risks of tax evasion schemes; and**
- **monitor the results of inspections by type, number, and location, and periodically make any changes needed to ensure that its resources remain effectively deployed.**

Ministry Response

The Ministry will assess whether the number of inspectors is sufficient, refine performance targets, and monitor results.

BUSINESS PROCESS RE-ENGINEERING

Gasoline, diesel fuel, and tobacco tax-related returns and supporting schedules are filed and processed by the Branch in paper form, which requires branch staff to spend much time handling the voluminous amount of paper involved. However, the Ministry has recognized that, because of the Branch's limited staff resources and the preponderance of registrants that rely heavily on information technology, it needs to revise its own business processes by making more extensive use of information technology and developing a desk audit function.

In our 1995 report, we raised this issue and recommended that the feasibility of changing from a paper-based system to one based on electronic data interchange be investigated.

In 1997, the Ministry initiated a re-engineering project for the Branch's business processes. The project was initially scheduled for completion in 2001 and, among other things, was to include the development of such features as:

- electronic filing of tax returns and other required information;
- electronic tax return processing; and

- extensive data comparison and analyses for verifying the information provided and, for example, enhancing audit selection.

At the time of our audit in early 2001, the Ministry had developed information technology applications such as integrating the tax-refund claim processing function and monitoring tax-exempt sales of tobacco products to natives on reserves. However, work on the features noted above had not yet begun. The Ministry now expects that these features will not be completed before the end of the 2002/03 fiscal year.

Recommendation

Given that many of our preceding recommendations could be implemented most efficiently and effectively through the use of information technology, the Ministry should give priority to completing its business re-engineering project as soon as possible.

Ministry Response

Priority will be given to completing our business re-engineering project.

EFFECTIVENESS MEASURES

The commodity tax systems are essentially based on self-assessment by collectors whereby they are to voluntarily declare taxable sales and remit the correct amount of tax. The objective of the Branch's administrative policies and procedures is to encourage such voluntary compliance and, at the same time, minimize tax evasion.

The primary indicator of the degree of voluntary compliance and therefore of the success of the Branch's administrative policies and procedures, is the extent of tax evasion over time. The Ministry's Macroeconomics Analysis and Policy Branch is responsible for developing revenue forecasts and estimating potential tax losses attributable to tax evasion. However, our discussions with staff from that Branch indicated that no studies of tax evasion as it relates to commodity taxes had been conducted since the time of our last audit in 1995.

Aside from determining the nature and extent of tax evasion, the Motor Fuels and Tobacco Tax Branch could develop more direct performance indicators that, over time, could also provide insight into the impact of branch activities on voluntary compliance and the deterrence of tax evasion.

In our 1995 report on this program, we made similar observations and the Ministry responded that it was in the process of developing a management information system that would measure the effectiveness of its compliance and enforcement activities. However, we found that such a system had not yet been developed.

Recommendation

To determine the extent to which it is meeting its objectives of encouraging voluntary compliance with and deterring the evasion of gasoline, diesel fuel,

and tobacco taxes, the Ministry should develop and implement the necessary performance indicators.

Ministry Response

The Ministry will consider the development of additional performance indicators to determine the impact of ministry activities on voluntary compliance.

3.09–Drug Programs Activity

BACKGROUND

Ontario's drug programs are administered by the Drug Programs Branch (Branch) of the Ministry of Health and Long-Term Care. The Branch co-ordinates ministry policies and activities associated with the provision of prescription drugs and related products to eligible residents of Ontario. The Branch's mission is "to provide leadership in achieving optimal pharmaceutical services for the protection and improvement of the health status of residents of Ontario." In that regard, the Branch's objectives include:

- achieving equitable protection for Ontarians from unaffordable drug costs; and
- containing costs with suitable controls to keep Ontario's prescription drug programs affordable.

The Branch is responsible for administering transfer payments provided by the Ministry's Drug Programs Activity for the following drug programs:

> *Ontario Drug Benefit Program*: provides prescription drugs to Ontario seniors, social-assistance recipients, individuals receiving professional home-care services, and residents of homes for special care or long-term care facilities. Since 1996, recipients must contribute towards the cost of prescription drugs paid for by the Program. The Ontario Drug Benefit Program accounts for approximately 38% of all prescription drug expenditures in Ontario.
>
> *Trillium Drug Program*: provides assistance to people who do not meet the eligibility requirements of the Ontario Drug Benefit Program and who have high prescription drug costs in relation to their income.
>
> *Special Drugs Program*: provides funding to cover the costs of certain drugs required for the treatment of specific health conditions as set out in regulations under the *Health Insurance Act*.

Legislative authority for transfer payments made through Ontario's drug programs is established under the *Ontario Drug Benefit Act*, the *Drug Interchangeability and Dispensing Fee Act*, and the *Health Insurance Act*.

The Branch is also responsible for monitoring the development, operation, and maintenance of the Health Network System (Network)—a computer system that links the Branch to approximately 2,700 pharmacies and 600 other dispensers; provides on-line information to pharmacists; and enables the submission, adjudication, and payment of drug claims. The

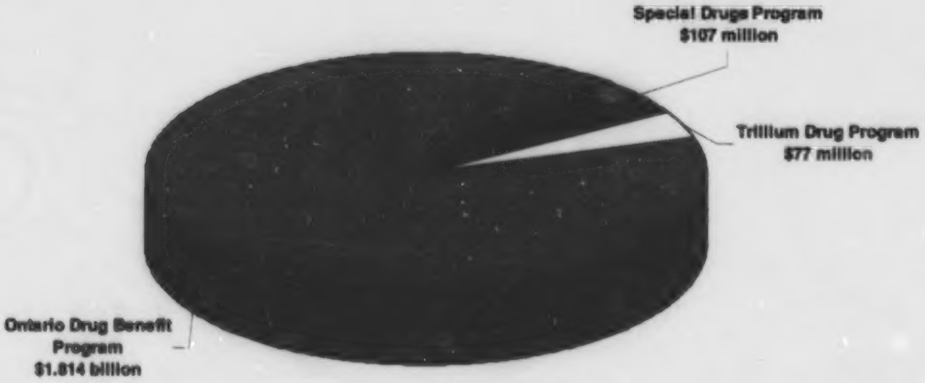
Network, which annually processes approximately 50 million prescriptions for approximately 2.7 million eligible recipients, is operated on behalf of the province by a private-sector service provider.

The Drug Quality and Therapeutics Committee, which was established in 1968 under the *Ministry of Health Act*, evaluates the quality, therapeutic value, interchangeability, and cost of drugs, as well as their suitability for funding by the Ministry.

The Branch manages the delivery of the drug programs with the assistance of expert advisory committees. In 1998, the Drug Utilization Advisory Committee was established to review issues related to the utilization of prescription drugs, and the Ontario Program for Optimal Therapeutics Committee was established to oversee the development of additional prescribing guidelines and related projects.

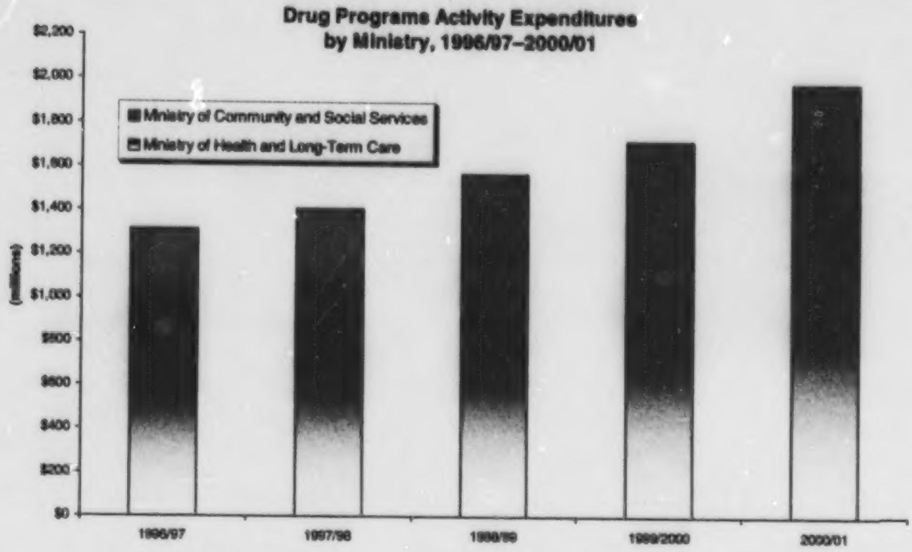
For the 2000/01 fiscal year, Ontario's drug programs had total expenditures of $1.98 billion—$413 million of which was recovered from the Ministry of Community and Social Services for drug benefits paid for social-assistance recipients. In addition to ministry expenditures, drug expenditures included recipients paying $250 million in deductibles and co-payments. The following graph illustrates the expenditures of the three drug programs.

Ontario Drug Programs Activity
Expenditures by Program, 2000/01



Source of data: Ministry of Health and Long-Term Care

Transfer payments for the Drug Programs Activity have increased by approximately 51% from 1996/97 to 2000/01, as illustrated by the following graph.



Source of data: Ministry of Health and Long-Term Care

Jurisdictions other than Ontario are also reporting significant annual increases in prescription drug expenditures for their publicly funded drug plans. Various health-related reports indicate that a number of factors are contributing to these increases, including:

- an increase in the number of residents 65 years and older;
- the introduction of new and more expensive drugs and drug therapies that allow patients to remain in their homes longer or leave hospitals sooner; and
- changes in prescribing practices.

In April 1998, the government approved six cost-management initiatives recommended by the Cabinet Committee on Financial Planning to contain annual drug program expenditures. These initiatives included: modernizing the Ontario Drug Benefit Program Formulary, introducing written agreements with manufacturers, establishing a new generic pricing rule, and developing new prescribing guidelines. Despite these initiatives, Ontario Drug Programs Activity expenditures have continued to increase by 7% to 15% annually.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Drug Programs Activity were to assess whether the Ministry had adequate procedures in place to:

- ensure resources were managed with due regard for economy;
- ensure compliance with legislation and assess whether its policies and procedures for approving, processing, and paying claims were adequate and were being followed; and
- measure and report on the effectiveness of the Drug Programs Activity.

Our audit was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our audit, we identified the audit criteria that would be used to address our audit objectives. These criteria were reviewed and agreed to by senior ministry management.

In conducting our audit, which was substantially completed in May 2001, we reviewed and analyzed relevant policies and procedures and interviewed ministry staff in Toronto and Kingston, as well as staff of the Health Network System service provider. We also reviewed the operations of the Health Network System and the relevant work completed by the Ministry's Audit Branch. In addition, we met with members of the Drug Quality and Therapeutics Committee and the Ontario Program for Optimal Therapeutics Committee, researchers at the Institute for Clinical Evaluative Sciences in Ontario, and medical experts at the Centre for Evaluation of Medicines.

OVERALL AUDIT CONCLUSIONS

Since our last audit of the Drugs Program Activity, the Ministry has introduced a number of initiatives to manage drug expenditures, including initiatives to encourage appropriate prescribing and improve the timeliness of updates to the Formulary.

However, with respect to due regard for economy, the Ministry had not given sufficient consideration to the prices it was paying for drugs and had not completed the development of a drug use review program. We raised similar concerns in our 1996 audit of this area.

Our major concerns with respect to prices paid for drugs are as follows:

- The Ministry had not maximized savings from the addition of approved generic drugs to the Formulary or from manufacturers' price reductions. Based on a sample of drugs we reviewed, we estimated that delays over a two-year period resulted in lost savings totalling $17 million.
- The Ministry had not reviewed the effectiveness of its generic pricing practices or routinely compared the prices it was paying for drugs with the prices paid by other jurisdictions. For instance, for a sample of generic drugs, we noted that Saskatchewan's prescription drug plan prices were on average 50% lower than Ontario's. We estimated that the Ministry would have saved approximately $54 million annually had it paid the same price as Saskatchewan for these products.
- The Ministry had not assessed the benefits of acquiring drugs from manufacturers through a competitive process. For instance, we reviewed a sample of drug prices paid by another jurisdiction using a competitive acquisition process and found that if Ontario's drug programs were able to obtain these drugs at the same prices, they would have been able to save approximately $140 million in the 2000/01 fiscal year. While Ontario may not be able to obtain the same prices as the other jurisdiction, the significant difference in price warrants further examination.

In general, we found that while the Ministry had adequate procedures in place to ensure compliance with legislation and that claims were properly approved, processed, and paid, the Ministry still needed to:

- ensure that individuals granted temporary eligibility for the drug programs are subsequently confirmed as being eligible—although approximately 335,000 individuals were granted temporary eligibility during the 1999/2000 fiscal year, the Ministry had not substantiated the eligibility of as many as 180,000 of them;
- better identify and follow up on incorrect or false billings by inspecting pharmacies and verifying claims with recipients;
- recover inappropriate payments on a timely basis—in 2001, the Ministry forgave $1.5 million to be recovered from pharmacies as a result of a 1997 verification of claims for limited-use drugs;
- implement procedures to ensure that deductibles under the Trillium Drug Program are properly applied—for the 1999/2000 benefit year, approximately $750,000 was owing to the Ministry for outstanding deductibles;
- improve the procedures for paying Special Drugs Program invoices—we found that, for one drug we selected for audit, the Ministry had been overcharged $475,000 over a five-year period (the Ministry was in the process of recovering the overpayment from the manufacturer); and
- better monitor the activities of the Health Network System service provider and ensure adequate computer security processes were in place.

We also concluded that to provide better accountability to the public and the Legislature, the Ministry needed to develop a comprehensive set of performance measures and periodically report publicly on the performance of the Drug Programs Activity.

DETAILED AUDIT OBSERVATIONS

ONTARIO DRUG BENEFIT AND TRILLIUM DRUG PROGRAMS

Drug Use Review

When used appropriately, prescription drugs can be a cost-effective form of treatment, often preventing or reducing an individual's need for hospitalization or long-term residential care. However, increasing drug expenditures do not necessarily indicate that Ontario's drug programs are achieving their goal of protecting and improving the health status of the residents of Ontario.

The health-care experts we met with indicated that inappropriate prescribing and patients' failing to follow their prescribers' instructions are significant problems. Inappropriate prescribing includes unnecessary prescribing, prescribing an expensive drug rather than a cheaper and equally effective alternative, and prescribing the wrong drug or the wrong dose. In addition, these experts indicated that research had shown that not prescribing drugs in cases where they should have been prescribed may affect patient care and may increase pressure on other parts of the health system. When inappropriate use is identified, the measures used to address the problem depend on the reasons for inappropriate drug use: measures could include providing prescribers with information on their prescribing relative to their peers, as well as educational visits to discuss prescribing practices for specific medical conditions.

In our *1996 Annual Report*, we noted that the Ministry had taken a number of steps to encourage appropriate prescribing. These included sponsoring the development of prescribing guidelines to assist prescribers in determining the most clinically correct and cost-effective drugs for certain infections and uncomplicated hypertension.

In 1998, the Ministry established the Ontario Program for Optimal Therapeutics Committee to oversee the development of additional prescribing guidelines and related projects. In 1999, the Ministry had provided $4.3 million in funding to the Committee. By the end of our current audit, the Committee had commissioned the development and issuance of seven prescribing guidelines covering the treatment of certain conditions such as diabetes and arthritis. However, we were advised that the Committee had not yet decided on implementation strategies for the guidelines.

While prescribing guidelines are an important step in encouraging appropriate prescribing, research has consistently shown that, by themselves, guidelines do not change prescribing practices. Given this, in 1996, we recommended that the Ministry ensure the establishment of a drug use review program to promote the appropriate and economical prescribing of drugs. Drug use review is an ongoing process that analyzes prescribing patterns, as well as the use of drugs by patients, against established criteria. It would also include the design and implementation of measures to improve drug use.

In response to our recommendation, the Ministry stated that it supported drug use review and was working with the Ontario Pharmacists' Association towards an agreement to institute drug use review.

In providing pharmacists with on-line warnings about drug interactions through its Health Network System, the Ministry already has in place some elements of drug use review. In addition, according to ministry officials, prescribers in primary care networks will eventually be able to access the Network's database to check for possible interactions before writing a prescription. Health experts have indicated that one of the most promising ways of assisting prescribers is to provide them with information through computer software about alternative treatments and costs when they are making decisions about appropriate treatment.

Nevertheless, despite recommendations that date back to 1990 with the Pharmaceutical Inquiry of Ontario, the Ministry has not established a drug use review program. We noted that some other jurisdictions—including at least two other Canadian provinces (Saskatchewan and Quebec) and the United States Medicaid Program—have such programs in place.

The success of any drug use review program depends in part on the completeness and accuracy of the information used to assess the appropriateness of drug use. Despite the need for complete and accurate information, we found that, in the past two years, 10% of claims did not identify the prescriber. It may also be beneficial to link prescription information in the Health Network System with information about a patient's medical diagnosis in the OHIP database to assess whether the prescriptions appear appropriate.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Recommendation

To help ensure that Ontario's drug programs encourage the economic and appropriate use of prescription drugs and result in optimal improvement in the health status of recipients, the Ministry, in consultation with other stakeholders, should:

- **establish a drug use review program; and**
- **ensure that the Health Network System provides accurate and complete information to implement drug use review.**

Ministry Response

The Ministry is promoting appropriate prescribing and utilization reviews with other stakeholders in several ways:

- ***The Ontario Program for Optimal Therapeutics (OPOT) developed and disseminated seven sets of guidelines in January 2001, which cover over 50% of drugs funded. These guidelines, which reflect up-to-date, expert consensus on specific therapeutic categories, were distributed to physicians and pharmacists and are being used widely within Ontario and by other provincial jurisdictions. OPOT will assess the utilization and promotion of prescribing guidelines.***
- ***The mandate of the Drug Utilization Advisory Committee includes encouraging the appropriate use of prescription drugs, reviewing utilization of prescription medications, and identifying factors that affect usage and actions that are required to ensure utilization is rational and changes are predictable. This committee is supported by the brand-name pharmaceutical industry and the Ministry.***
- ***The Ministry has supported various initiatives related to the evaluation of drug utilization through work done with the Institute for Clinical Evaluative Sciences.***

The Ministry has consulted with the College of Physicians and Surgeons of Ontario about providing an updated list of physician identification numbers to pharmacies. To ensure information on the Health Network System is accurate and complete, pharmacies are being instructed that valid identification numbers must be used unless the situation is exceptional.

The Drug Formulary

The Ontario Drug Benefit Formulary/Comparative Drug Index (the Formulary) lists the approximately 3,100 drug products that are covered by the Ontario Drug Benefit and Trillium Drug programs along with the prices that the Drug Programs Branch will generally pay pharmacists for these drugs. The Formulary also identifies "those brands of drugs that are considered to be interchangeable, and serves as a prescribing and reimbursement guide for doctors and pharmacists."

Recommendation

To help ensure that Ontario's drug programs encourage the economic and appropriate use of prescription drugs and result in optimal improvement in the health status of recipients, the Ministry, in consultation with other stakeholders, should:

- **establish a drug use review program; and**
- **ensure that the Health Network System provides accurate and complete information to implement drug use review.**

Ministry Response

The Ministry is promoting appropriate prescribing and utilization reviews with other stakeholders in several ways:

- ***The Ontario Program for Optimal Therapeutics (OPOT) developed and disseminated seven sets of guidelines in January 2001, which cover over 50% of drugs funded. These guidelines, which reflect up-to-date, expert consensus on specific therapeutic categories, were distributed to physicians and pharmacists and are being used widely within Ontario and by other provincial jurisdictions. OPOT will assess the utilization and promotion of prescribing guidelines.***
- ***The mandate of the Drug Utilization Advisory Committee includes encouraging the appropriate use of prescription drugs, reviewing utilization of prescription medications, and identifying factors that affect usage and actions that are required to ensure utilization is rational and changes are predictable. This committee is supported by the brand-name pharmaceutical industry and the Ministry.***
- ***The Ministry has supported various initiatives related to the evaluation of drug utilization through work done with the Institute for Clinical Evaluative Sciences.***

The Ministry has consulted with the College of Physicians and Surgeons of Ontario about providing an updated list of physician identification numbers to pharmacies. To ensure information on the Health Network System is accurate and complete, pharmacies are being instructed that valid identification numbers must be used unless the situation is exceptional.

The Drug Formulary

The Ontario Drug Benefit Formulary/Comparative Drug Index (the Formulary) lists the approximately 3,100 drug products that are covered by the Ontario Drug Benefit and Trillium Drug programs along with the prices that the Drug Programs Branch will generally pay pharmacists for these drugs. The Formulary also identifies "those brands of drugs that are considered to be interchangeable, and serves as a prescribing and reimbursement guide for doctors and pharmacists."

Before a drug product is listed in the Formulary, drug manufacturers must make a submission to the Branch. This submission is reviewed by the Drug Quality and Therapeutics Committee, which considers how well the drug works and whether it is cost effective when compared to other drugs having similar results. Based on its review, the Committee may recommend to the Minister that the drug be listed on the Formulary.

The Branch prepares an analysis of the Committee's recommendations for review by the Ministry's senior management. Final recommendations—along with other revisions to be made to the Formulary, such as price changes—are forwarded to the Management Board of Cabinet for approval. Approved additions or revisions are included in the Formulary in accordance with regulations made under the *Ontario Drug Benefit Act*.

Since our 1996 audit, the Branch has introduced a number of measures to streamline the drug submission, review, and evaluation process. These measures have included removing administrative barriers and, where possible, harmonizing its processes with those of Health Canada. For instance, since September 2000, when Health Canada issues a Notice of Compliance indicating that a generic drug is bioequivalent to a specific brand-name drug, the generic drug bypasses Ontario's normal committee review process and is added directly to a formulary update.

TIMELY UPDATES TO THE FORMULARY

Delays in having drugs listed in the Formulary, particularly generic drugs, can be costly to the Ministry. For instance, promptly listing generic drugs, which are lower-priced bioequivalents of brand-name drugs, saves the Ministry money. During our 1996 audit, the Ministry advised us that part of the Drug Program Branch's continuous review cycle was to fast-track the addition of products to the Formulary. In November 1998, the Ministry committed to quarterly updates of the Formulary.

During this audit, we reviewed the recommendations made by the Drug Quality and Therapeutics Committee between June 1999 and November 2000 and noted that of 182 generic and brand-name drugs that were recommended for listing, 142 were not included in the next formulary update. For 83 of these drugs, the Committee's recommendations were made a full one to three months prior to the next update. However, the need for subsequent review and approval delayed the listing of these products.

The Branch calculated that, as a result of generic drugs added to the Formulary between December 1998 and November 2000, the Ministry was saving $57 million annually. From these drugs, we selected a sample that represented approximately 50% of the savings identified and found that, on average, eight months had elapsed between these drugs being recommended and being listed on the Formulary, which resulted in lost savings to the Ministry totalling approximately $16.7 million.

In our *1996 Annual Report*, we recommended that to avoid paying more than is necessary for drugs, the Ministry should ensure that drug manufacturers' price reductions are incorporated in the Formulary on a timely basis. At that time, it took an average of six-and-a-half months to implement the reductions. During this audit, we found that price reductions were still not being incorporated on a timely basis. Between December 1998 and November 2000, drug manufacturers voluntarily requested price reductions for a number of drugs. The Branch estimated that, once implemented, these reductions would save the Program approximately $2.4 million annually. We reviewed drugs that represented approximately 65% of the estimated savings and found that, on average, it took eight months for the price to be reduced on the Formulary, resulting in lost savings to the Ministry totalling approximately $840,000.

The Ministry advised us that, despite the potential significant savings, there were no processes for expediting the listing of drugs recommended by the Committee or the implementation of manufacturers' price reductions on the Formulary.

Recommendation

To help maximize potential savings to the Drug Programs Activity, the Ministry should pursue more timely updating of the Ontario Drug Benefit Formulary when:

- **adding approved generic drugs; and**
- **implementing manufacturers' price reductions.**

Ministry Response

The Ministry has been making quarterly updates to the Ontario Drug Benefit Formulary for the past three years. Nine updates have been issued since December 1998.

The Ministry has endeavoured to strike a balance between enhancing efficiency and ensuring that drug review procedures are cost effective and meet the needs of Ontario Drug Benefit recipients.

With respect to the $18.7 million that was identified by the auditor as a lost savings arising from delays in listing generic products, in each case the product was listed in the Formulary Edition or Update as per standard process. Five of the 12 products identified were approved prior to the December 31, 1998 update. There were no Formulary updates from August 1997 to December 1998. The average time period before the listing of the other seven products, after December 1998, was four-and-a-half months, versus fourteen-and-a-half months prior to December 1998.

FORMULARY MODERNIZATION

In our *1996 Annual Report*, we recommended that the Ministry regularly re-evaluate all drugs listed in the Formulary to ensure that the Ontario Drug Benefit Program only covers drugs that are appropriate and cost effective. In 1998, to address one of the cost-management initiatives recommended by the Cabinet Committee on Financial Planning, the Ministry asked the Drug Quality and Therapeutics Committee to undertake a modernization of the Formulary. The Committee established a Modernization Subcommittee to review drugs by therapeutic category to ensure that the drugs listed continued to provide benefits, based upon current clinical knowledge and practice, and were cost effective.

During our current audit, we noted that the Ministry acted on most of the Subcommittee's recommendations approved by the Drug Quality and Therapeutics Committee in 1998. The Subcommittee had recommended 85 drugs be considered for delisting once consultations were

savings and found that, on average, it took eight months for the price to be reduced on the Formulary, resulting in lost savings to the Ministry totalling approximately $840,000.

The Ministry advised us that, despite the potential significant savings, there were no processes for expediting the listing of drugs recommended by the Committee or the implementation of manufacturers' price reductions on the Formulary.

Recommendation

To help maximize potential savings to the Drug Programs Activity, the Ministry should pursue more timely updating of the Ontario Drug Benefit Formulary when:

- **adding approved generic drugs; and**
- **implementing manufacturers' price reductions.**

Ministry Response

The Ministry has been making quarterly updates to the Ontario Drug Benefit Formulary for the past three years. Nine updates have been issued since December 1998.

The Ministry has endeavoured to strike a balance between enhancing efficiency and ensuring that drug review procedures are cost effective and meet the needs of Ontario Drug Benefit recipients.

With respect to the $16.7 million that was identified by the auditor as a lost savings arising from delays in listing generic products, in each case the product was listed in the Formulary Edition or Update as per standard process. Five of the 12 products identified were approved prior to the December 31, 1998 update. There were no Formulary updates from August 1997 to December 1998. The average time period before the listing of the other seven products, after December 1998, was four-and-a-half months, versus fourteen-and-a-half months prior to December 1998.

FORMULARY MODERNIZATION

In our *1996 Annual Report*, we recommended that the Ministry regularly re-evaluate all drugs listed in the Formulary to ensure that the Ontario Drug Benefit Program only covers drugs that are appropriate and cost effective. In 1998, to address one of the cost-management initiatives recommended by the Cabinet Committee on Financial Planning, the Ministry asked the Drug Quality and Therapeutics Committee to undertake a modernization of the Formulary. The Committee established a Modernization Subcommittee to review drugs by therapeutic category to ensure that the drugs listed continued to provide benefits, based upon current clinical knowledge and practice, and were cost effective.

During our current audit, we noted that the Ministry acted on most of the Subcommittee's recommendations approved by the Drug Quality and Therapeutics Committee in 1998. The Subcommittee had recommended 85 drugs be considered for delisting once consultations were held with the various manufacturers; however, the Branch did not arrange for such consultations, and these drugs remained in the Formulary.

Between April 1998 and October 2000, various other subcommittees of the Drug Quality and Therapeutics Committee reviewed approximately 500 drugs from seven therapeutic categories, representing approximately 16% of the drugs on the Formulary. As a result, some drugs were delisted while others were identified as drugs that should only be covered for specific conditions.

Continuous formulary review is important to confirm whether drugs should be delisted, continue to be listed, or only be covered for specific conditions. While the Drug Quality and Therapeutics Committee and the Branch acknowledged the importance of formulary reviews, we were advised that there is no plan to conduct such reviews on a regular basis.

Recommendation

The Ministry should ensure that drugs listed in the Ontario Drug Benefit Formulary are regularly reviewed so that the Ontario Drug Benefit Program only covers the cost of drugs that are appropriate and cost effective.

Ministry Response

Over the past three years, eight comprehensive category reviews have been conducted by the Drug Quality and Therapeutics Committee (DQTC) and implemented in the Drug Formulary.

The DQTC and the Branch will continue to carry out reviews of medications that are reimbursed under the drug programs on a regular and ongoing basis to ensure that the Formulary remains up-to-date and in keeping with the latest clinical evidence.

Pricing

In our 1991 and 1996 *Annual Reports*, we recommended that the Branch regularly obtain information on the drug prices paid by other provinces to enable it to more effectively negotiate prices with drug manufacturers. In 1996, the Ministry responded that it was now doing this "on a consistent and regular basis through receipt of drug and drug policy analyses and Formularies from other provinces."

In addition, in its 1996/97 Annual Report, the Standing Committee on Public Accounts issued the following recommendation: "Considering the number of [Ontario Drug Benefit] recipients and the resulting volume of sales, the Ministry should ensure that the prices paid for drugs listed in the Ontario Drug Benefit Formulary do not exceed the prices paid for the same drugs in other provincial jurisdictions."

During our current audit, we compared the prices Ontario paid for drugs with those paid by the drug plans of Quebec and Saskatchewan for a sample of drugs that accounted for a significant portion of the Ontario Drug Benefit Program's expenditures. While the prices were generally similar for most brand-name drugs, we found that for one major brand-name drug, both Quebec and Saskatchewan paid lower prices. If Ontario had obtained the same price as Quebec, which had secured the lowest price, the Ministry would have saved approximately $5 million annually.

As well, in 1998, the Cabinet Committee on Financial Planning recommended that a generic pricing rule be introduced to reduce the prices paid for generic drugs. The Ministry's policy is that the maximum price the Ontario Drug Benefit Program will pay for the brand-name drug and all generics in each category of drugs is usually the price of the lowest-priced generic in the Formulary. Accordingly, the addition of lower-priced generics results in immediate savings to the Program.

In May 1998, a new regulation under the *Ontario Drug Benefit Act* was approved requiring that, when the first generic of a brand-name drug was added to the Formulary, the price had to be 60% or less of the original price of the brand-name product. The prices of the second and subsequent generics had to be 54% or less of the original brand-name price. In November 1998, a revised regulation increased the maximum price at the introduction of the first generic to 70% and the second and subsequent generics to 63% or less of the brand-name price.

We obtained a report from the Branch on new generic drugs added to the Formulary between December 1998 and November 2000 and found 133 generic drugs were added without any savings to the Ministry. The primary reason for this was that prices approved for third and subsequent generics of a respective brand-name drug were all 63% of the original price of the brand-name drug. Savings to the Ministry would only accrue if generics were priced below 63% of the brand-name drug. Increased competition with the brand-name drug and between generic drugs trying to increase their market share creates greater opportunities for drug wholesalers and pharmacists to obtain lower prices from manufacturers. The Ministry, however, could still be paying pharmacists the higher formulary price.

We also noted that where the first and subsequent generics were added to the Formulary simultaneously, the price for all of these was 70% of the original price of the brand-name drug. We also found one instance where a second and third generic were added, but the price was not reduced from 70% to 63% of the price of the brand-name drug. Accordingly, the Ministry was not in compliance with its regulation and was therefore not benefiting from the addition of these generics.

We also assessed the impact of the generic pricing rule by selecting a sample of generic drugs and comparing the prices Ontario pays with the prices paid by Quebec and Saskatchewan. Quebec's prices were somewhat lower. Saskatchewan's prices, where it had tendered for these drugs, were on average 50% lower than Ontario's. Although Saskatchewan is a smaller purchaser of drugs than Ontario, it secured lower prices by tendering on a competitive basis for certain generic drugs. We estimated that Ontario could save approximately $54 million annually if it paid the same prices as Saskatchewan for these generic drugs.

Recommendation

To better control the drug costs of Ontario's drug programs and to enable the Ministry to more effectively negotiate prices with drug manufacturers, the Ministry should routinely compare the prices it pays for drugs with the prices paid by other provinces.

held with the various manufacturers; however, the Branch did not arrange for such consultations, and these drugs remained in the Formulary.

Between April 1998 and October 2000, various other subcommittees of the Drug Quality and Therapeutics Committee reviewed approximately 500 drugs from seven therapeutic categories, representing approximately 16% of the drugs on the Formulary. As a result, some drugs were delisted while others were identified as drugs that should only be covered for specific conditions.

Continuous formulary review is important to confirm whether drugs should be delisted, continue to be listed, or only be covered for specific conditions. While the Drug Quality and Therapeutics Committee and the Branch acknowledged the importance of formulary reviews, we were advised that there is no plan to conduct such reviews on a regular basis.

Recommendation

The Ministry should ensure that drugs listed in the Ontario Drug Benefit Formulary are regularly reviewed so that the Ontario Drug Benefit Program only covers the cost of drugs that are appropriate and cost effective.

Ministry Response

Over the past three years, eight comprehensive category reviews have been conducted by the Drug Quality and Therapeutics Committee (DQTC) and implemented in the Drug Formulary.

The DQTC and the Branch will continue to carry out reviews of medications that are reimbursed under the drug programs on a regular and ongoing basis to ensure that the Formulary remains up-to-date and in keeping with the latest clinical evidence.

Pricing

In our 1991 and 1996 *Annual Reports*, we recommended that the Branch regularly obtain information on the drug prices paid by other provinces to enable it to more effectively negotiate prices with drug manufacturers. In 1996, the Ministry responded that it was now doing this "on a consistent and regular basis through receipt of drug and drug policy analyses and Formularies from other provinces."

In addition, in its 1996/97 Annual Report, the Standing Committee on Public Accounts issued the following recommendation: "Considering the number of [Ontario Drug Benefit] recipients and the resulting volume of sales, the Ministry should ensure that the prices paid for drugs listed in the Ontario Drug Benefit Formulary do not exceed the prices paid for the same drugs in other provincial jurisdictions."

During our current audit, we compared the prices Ontario paid for drugs with those paid by the drug plans of Quebec and Saskatchewan for a sample of drugs that accounted for a significant portion of the Ontario Drug Benefit Program's expenditures. While the prices were generally similar for most brand-name drugs, we found that for one major brand-name drug, both Quebec and Saskatchewan paid lower prices. If Ontario had obtained the same price as Quebec, which had secured the lowest price, the Ministry would have saved approximately $5 million annually.

As well, in 1998, the Cabinet Committee on Financial Planning recommended that a generic pricing rule be introduced to reduce the prices paid for generic drugs. The Ministry's policy is that the maximum price the Ontario Drug Benefit Program will pay for the brand-name drug and all generics in each category of drugs is usually the price of the lowest-priced generic in the Formulary. Accordingly, the addition of lower-priced generics results in immediate savings to the Program.

In May 1998, a new regulation under the *Ontario Drug Benefit Act* was approved requiring that, when the first generic of a brand-name drug was added to the Formulary, the price had to be 60% or less of the original price of the brand-name product. The prices of the second and subsequent generics had to be 54% or less of the original brand-name price. In November 1998, a revised regulation increased the maximum price at the introduction of the first generic to 70% and the second and subsequent generics to 63% or less of the brand-name price.

We obtained a report from the Branch on new generic drugs added to the Formulary between December 1998 and November 2000 and found 133 generic drugs were added without any savings to the Ministry. The primary reason for this was that prices approved for third and subsequent generics of a respective brand-name drug were all 63% of the original price of the brand-name drug. Savings to the Ministry would only accrue if generics were priced below 63% of the brand-name drug. Increased competition with the brand-name drug and between generic drugs trying to increase their market share creates greater opportunities for drug wholesalers and pharmacists to obtain lower prices from manufacturers. The Ministry, however, could still be paying pharmacists the higher formulary price.

We also noted that where the first and subsequent generics were added to the Formulary simultaneously, the price for all of these was 70% of the original price of the brand-name drug. We also found one instance where a second and third generic were added, but the price was not reduced from 70% to 63% of the price of the brand-name drug. Accordingly, the Ministry was not in compliance with its regulation and was therefore not benefiting from the addition of these generics.

We also assessed the impact of the generic pricing rule by selecting a sample of generic drugs and comparing the prices Ontario pays with the prices paid by Quebec and Saskatchewan. Quebec's prices were somewhat lower. Saskatchewan's prices, where it had tendered for these drugs, were on average 50% lower than Ontario's. Although Saskatchewan is a smaller purchaser of drugs than Ontario, it secured lower prices by tendering on a competitive basis for certain generic drugs. We estimated that Ontario could save approximately $54 million annually if it paid the same prices as Saskatchewan for these generic drugs.

Recommendation

To better control the drug costs of Ontario's drug programs and to enable the Ministry to more effectively negotiate prices with drug manufacturers, the Ministry should routinely compare the prices it pays for drugs with the prices paid by other provinces.

The Ministry should also review the generic pricing rule to ensure that it does not impede the Ministry from obtaining generic drugs at the lowest possible price.

Ministry Response

Prices are set in agreements between the Ministry and the manufacturer in accordance with the regulations now in place.

As part of the work being done by the Federal/Provincial/Territorial Working Group on Drug Prices, a study was conducted comparing the retail prices for all drugs claimed under the programs of six provinces: Nova Scotia, Ontario, Manitoba, Saskatchewan, Alberta, and British Columbia. The results of the study indicate:

- *For patented drugs, Ontario was the lowest-cost province. On average, Ontario prices were 1.5% lower than Canadian prices.*
- *For non-patented drugs, Saskatchewan was the lowest-cost province and Ontario was the next lowest. On average, Ontario prices were 2.4% lower than Canadian prices.*
- *For generic products, Saskatchewan was the lowest-cost province and Ontario was the next lowest. Ontario prices were on average 1.3% below the Canadian average.*

The Ministry will review the generic price rule to ensure that Ontario receives the lowest possible price.

PRICING OPTIONS

Reference Drug Pricing

Since 1995, British Columbia has used reference drug pricing for certain categories of drugs to encourage the prescribing of less expensive drugs without sacrificing the quality of care provided to patients. British Columbia's drug plan covers the cost of the "reference drug"—usually the least expensive drug used to treat a particular medical condition. Independent experts provide advice on the categories of drugs where reference pricing can be applied. While for most people, the reference drug may be just as effective as more expensive alternatives, exceptions are permitted where individuals, for medical reasons, require one of the more expensive alternatives. Otherwise, individuals who want the more expensive drugs must pay the difference in price.

The British Columbia drug program estimates that reference drug pricing currently saves it approximately $30 million annually, and it maintains that this process has not resulted in additional negative health outcomes or increases in non-drug health expenditures. At the conclusion of our audit, there were three different groups of experts conducting research on reference pricing. We were advised that the preliminary conclusion of one of these research groups was that for the category of reference-priced drugs that it had reviewed in British Columbia, expenditures had decreased by $14.9 million over three-and-a-half years.

Contracting for Drugs

During our audit we also researched drug-purchasing practices in other jurisdictions. In addition to Saskatchewan, which tenders for certain generic drugs and often obtains lower prices than Ontario, the United States Department of Veterans Affairs (VA) also uses a competitive process to obtain certain drugs in its formulary. VA conducted evaluations of classes of drugs to determine whether some or all of the brand-name drugs in a class were assessed as being therapeutically equivalent. Therapeutically equivalent means that the drugs, while differing in chemistry, are judged to be equally safe and effective for most patients. In such cases, VA then decided whether to use a competitive process to obtain some of these drugs. Patients requiring a different drug in a category would be able to get that drug through an exception process.

We selected a sample of the drugs in the VA formulary obtained using a competitive process, including generic drugs and some brand-name drugs that have significant volumes in Ontario, and found that on average, VA's prices were 60% lower than Ontario's. We recognize that it may not be possible for the Ontario Drug Benefit Program to obtain the same prices as the VA. However, the significant differences warrant further examination. For instance, if the Ontario Drug Benefit Program was able to obtain the same prices as the VA for the drugs we selected for comparison, it would have saved at least $140 million in the 2000/01 fiscal year.

Recommendation

To help ensure that it obtains better value for money for its drug expenditures, the Ministry should assess the costs/benefits of pricing options that have been successfully implemented in other jurisdictions.

Ministry Response

The Ministry has regularly examined and will continue to examine the pricing options used in other jurisdictions. Canada's Patented Medicines Prices Review Board states that prices in Canada are approximately 10% below the median of international prices. In 2000, the prices for patented drugs in Canada were slightly lower than the prices in Sweden, Germany, the United Kingdom, and Switzerland and slightly higher than prices in France and Italy. Ontario's prices compare favourably with those of other provinces.

Written Agreements with Brand-name Drug Manufacturers

One initiative recommended by the Cabinet Committee on Financial Planning to manage drug costs was that brand-name drug manufacturers be required to enter into written agreements with the Ministry. These agreements would require manufacturers to forecast how much a new drug would cost the Ministry in the three years after it is listed in the Formulary. In 1998, a regulation under the *Ontario Drug Benefit Act* required written agreements for all new brand-name drugs added to the Formulary.

The Ministry should also review the generic pricing rule to ensure that it does not impede the Ministry from obtaining generic drugs at the lowest possible price.

Ministry Response

Prices are set in agreements between the Ministry and the manufacturer in accordance with the regulations now in place.

As part of the work being done by the Federal/Provincial/Territorial Working Group on Drug Prices, a study was conducted comparing the retail prices for all drugs claimed under the programs of six provinces: Nova Scotia, Ontario, Manitoba, Saskatchewan, Alberta, and British Columbia. The results of the study indicate:

- ***For patented drugs, Ontario was the lowest-cost province. On average, Ontario prices were 1.5% lower than Canadian prices.***
- ***For non-patented drugs, Saskatchewan was the lowest-cost province and Ontario was the next lowest. On average, Ontario prices were 2.4% lower than Canadian prices.***
- ***For generic products, Saskatchewan was the lowest-cost province and Ontario was the next lowest. Ontario prices were on average 1.3% below the Canadian average.***

The Ministry will review the generic price rule to ensure that Ontario receives the lowest possible price.

PRICING OPTIONS

Reference Drug Pricing

Since 1995, British Columbia has used reference drug pricing for certain categories of drugs to encourage the prescribing of less expensive drugs without sacrificing the quality of care provided to patients. British Columbia's drug plan covers the cost of the "reference drug"—usually the least expensive drug used to treat a particular medical condition. Independent experts provide advice on the categories of drugs where reference pricing can be applied. While for most people, the reference drug may be just as effective as more expensive alternatives, exceptions are permitted where individuals, for medical reasons, require one of the more expensive alternatives. Otherwise, individuals who want the more expensive drugs must pay the difference in price.

The British Columbia drug program estimates that reference drug pricing currently saves it approximately $30 million annually, and it maintains that this process has not resulted in additional negative health outcomes or increases in non-drug health expenditures. At the conclusion of our audit, there were three different groups of experts conducting research on reference pricing. We were advised that the preliminary conclusion of one of these research groups was that for the category of reference-priced drugs that it had reviewed in British Columbia, expenditures had decreased by $14.9 million over three-and-a-half years.

Contracting for Drugs

During our audit we also researched drug-purchasing practices in other jurisdictions. In addition to Saskatchewan, which tenders for certain generic drugs and often obtains lower prices than Ontario, the United States Department of Veterans Affairs (VA) also uses a competitive process to obtain certain drugs in its formulary. VA conducted evaluations of classes of drugs to determine whether some or all of the brand-name drugs in a class were assessed as being therapeutically equivalent. Therapeutically equivalent means that the drugs, while differing in chemistry, are judged to be equally safe and effective for most patients. In such cases, VA then decided whether to use a competitive process to obtain some of these drugs. Patients requiring a different drug in a category would be able to get that drug through an exception process.

We selected a sample of the drugs in the VA formulary obtained using a competitive process, including generic drugs and some brand-name drugs that have significant volumes in Ontario, and found that on average, VA's prices were 60% lower than Ontario's. We recognize that it may not be possible for the Ontario Drug Benefit Program to obtain the same prices as the VA. However, the significant differences warrant further examination. For instance, if the Ontario Drug Benefit Program was able to obtain the same prices as the VA for the drugs we selected for comparison, it would have saved at least $140 million in the 2000/01 fiscal year.

Recommendation

To help ensure that it obtains better value for money for its drug expenditures, the Ministry should assess the costs/benefits of pricing options that have been successfully implemented in other jurisdictions.

Ministry Response

The Ministry has regularly examined and will continue to examine the pricing options used in other jurisdictions. Canada's Patented Medicines Prices Review Board states that prices in Canada are approximately 10% below the median of international prices. In 2000, the prices for patented drugs in Canada were slightly lower than the prices in Sweden, Germany, the United Kingdom, and Switzerland and slightly higher than prices in France and Italy. Ontario's prices compare favorably with those of other provinces.

Written Agreements with Brand-name Drug Manufacturers

One initiative recommended by the Cabinet Committee on Financial Planning to manage drug costs was that brand-name drug manufacturers be required to enter into written agreements with the Ministry. These agreements would require manufacturers to forecast how much a new drug would cost the Ministry in the three years after it is listed in the Formulary. In 1998, a regulation under the *Ontario Drug Benefit Act* required written agreements for all new brand-name drugs added to the Formulary.

In September 1998, the Ministry and manufacturers' representatives signed a Memorandum of Understanding that outlined a process to provide the Ontario Drug Benefit Program with spending predictability. In addition, a Drug Utilization Advisory Committee was established to encourage the appropriate use of prescription drugs, review the utilization of prescription drugs, and identify factors that affect usage. Under this new process, if the use of a drug exceeds what was forecasted in the agreement, the manufacturer has an opportunity to demonstrate that such usage is appropriate—for instance, if the drug is subsequently approved for uses not initially anticipated. However, there was no indication of what action the Ministry can take if the additional use is judged to be inappropriate.

We reviewed a listing of the forecasted amounts in the 113 agreements signed since June 1, 1998 and compared these to actual ministry expenditures for these drugs. We found that in most cases actual expenditures were at least 10% below the forecasted amounts.

In addition, we selected a sample of drugs with actual expenditures either significantly above or below the amounts forecasted in the agreements. In most cases, we were unable to determine how the forecasted amounts in the agreements had been arrived at because these amounts were often significantly higher than the forecasted amounts in the Ministry's supporting documentation.

Where expenditures exceeded the amounts agreed to, branch staff indicated that action was being taken to address the potential overutilization. For example, the amounts in one agreement were being renegotiated, while in another the manufacturer intended to obtain an independent assessment. The Branch indicated that it would be reviewing the scope of the independent assessment to ensure it meets the Branch's requirements.

Recommendation

To help ensure that drug costs are more effectively managed, the Ministry should:

- **evaluate the extent to which the current written agreement process with drug manufacturers is meeting its objectives; and**
- **make improvements as required.**

Ministry Response

The Ministry identified the need for a review of the written agreement process in 2000. The report evaluating the written agreement process has been drafted and a number of recommendations are being assessed.

Health Network System

In 1993, the Ministry issued a request for proposals for the development, installation, and maintenance of a new computerized system for the Ontario Drug Benefit Program. The successful bidder was awarded a five-year, $86-million contract to develop and maintain the Health Network System (Network).

In September 1998, the Ministry and manufacturers' representatives signed a Memorandum of Understanding that outlined a process to provide the Ontario Drug Benefit Program with spending predictability. In addition, a Drug Utilization Advisory Committee was established to encourage the appropriate use of prescription drugs, review the utilization of prescription drugs, and identify factors that affect usage. Under this new process, if the use of a drug exceeds what was forecasted in the agreement, the manufacturer has an opportunity to demonstrate that such usage is appropriate—for instance, if the drug is subsequently approved for uses not initially anticipated. However, there was no indication of what action the Ministry can take if the additional use is judged to be inappropriate.

We reviewed a listing of the forecasted amounts in the 113 agreements signed since June 1, 1998 and compared these to actual ministry expenditures for these drugs. We found that in most cases actual expenditures were at least 10% below the forecasted amounts.

In addition, we selected a sample of drugs with actual expenditures either significantly above or below the amounts forecasted in the agreements. In most cases, we were unable to determine how the forecasted amounts in the agreements had been arrived at because these amounts were often significantly higher than the forecasted amounts in the Ministry's supporting documentation.

Where expenditures exceeded the amounts agreed to, branch staff indicated that action was being taken to address the potential overutilization. For example, the amounts in one agreement were being renegotiated, while in another the manufacturer intended to obtain an independent assessment. The Branch indicated that it would be reviewing the scope of the independent assessment to ensure it meets the Branch's requirements.

Recommendation

To help ensure that drug costs are more effectively managed, the Ministry should:

- **evaluate the extent to which the current written agreement process with drug manufacturers is meeting its objectives; and**
- **make improvements as required.**

Ministry Response

The Ministry identified the need for a review of the written agreement process in 2000. The report evaluating the written agreement process has been drafted and a number of recommendations are being assessed.

Health Network System

In 1993, the Ministry issued a request for proposals for the development, installation, and maintenance of a new computerized system for the Ontario Drug Benefit Program. The successful bidder was awarded a five-year, $86-million contract to develop and maintain the Health Network System (Network).

The Network is an on-line, real-time, claims adjudication, processing, and payment system that links the Ministry and pharmacies. Pharmacists use the Network to claim and receive payment for each prescription they fill for the Ontario Drug Benefit or Trillium Drug program by inputting details regarding the prescription and the eligible recipient, including his or her OHIP number. The Network validates this information using a series of system edits, adjudication rules, and response and intervention codes.

In February 1996, the Management Board of Cabinet issued an Alternative Delivery Framework to assist ministries in determining how to best deliver their services. One approach in the framework was contracting out existing services to the private sector. A ministry would retain ownership, overall responsibility, and control of an activity, but it would employ a private-sector vendor to provide the service. The primary aim of contracting out is to reduce expenditures without reducing the quality of the service.

In 1998, the Ministry, citing the information-technology risks associated with the Year 2000, obtained Management Board of Cabinet approval to extend the Network contract for two years. The extension was approved on the conditions that the total amount paid for seven years' work did not exceed the originally approved $86 million and the contract was retendered by June 1999.

In January 2000, with Management Board of Cabinet approval, the Branch and its consultants began negotiating a new three-year contract with the vendor. The vendor submitted proposals for both a three- and a five-year contract. After evaluating the proposals, the Branch and its consultants concluded that, from an operational and financial perspective, the five-year contract was preferable. After reviewing the Ministry's analysis, the Management Board approved a five-year, $63-million contract, which was then signed in September 2000.

The government procurement process, as indicated in the Management Board directives, is to provide a fair, transparent, and open competition to all vendors. Competition among vendors helps ensure that quality services are delivered for the lowest price. If competition among vendors is weak or if a ministry becomes dependent on a single vendor, then the financial and operational benefits of contracting out may be lost.

In reviewing the Ministry's documentation on the Network contracting process, we noted that because the current vendor has gained substantial knowledge and experience, it may inhibit competition for future contracts. This risk is even more significant given that the service being provided has such an impact on the drug programs.

Since there was no competitive selection when the Branch renegotiated its contract for the Health Network System, the Ministry hired consultants to assess the process and ensure fairness in the Branch's review of costs and services. However, the consultants' conclusions were not decisive. For example, one consultant reached the following conclusions: "you appear to have negotiated a fair and reasonable proposal with the vendor" and "the proposed staffing resource counts seem appropriate." This highlights the difficulty in assessing whether untendered contracts represent value for money.

Contrary to Management Board directives, the Ministry did not publicly announce its intent to renegotiate the 2000 contract and had not obtained Management Board approval to do so. Consequently, other potential suppliers may not have been formally aware of the Ministry's intentions. We understand that during the 1998 contract extension process, 17 potential suppliers expressed interest in bidding on the contract.

Recommendation

When selecting a vendor to provide long-term services without using a competitive process, the Ministry should ensure that it:

- **receives value for money through respective contracts with such vendors; and**
- **complies with Management Board of Cabinet directives.**

Ministry Response

Prior to the current contract, the Ministry retained external consultants to evaluate the vendor services, and it is satisfied that the opinions obtained from the consultants supported the agreement. The Health Network System is complex and highly customized to meet Ontario's needs, with elements such as eligibility and processing rules. Because the Network has many unique features, the consultants found that no direct comparisons could be made with other systems or contractual arrangements.

The contract with the current vendor is for five years. During this period the Ministry will evaluate the services provided and the options available for future operations and for the maintenance and development of the Health Network System. An extensive evaluation of the Network will be commissioned in the third year of the current contract.

The Ministry will ensure that it is in compliance with all Board directives.

CLAIMS PROCESSING

The Health Network System maintains a number of databases that are used to validate a pharmacy's claim for payment. These databases comprise listings of eligible recipients and approved pharmacies, the Network's processing edits and adjudication rules, and the Formulary. When a pharmacy inputs a claim, the Network verifies the eligibility of the individual and the drug claimed and calculates any deductibles or payments to be made by the recipient. It also checks the prescription for possible drug therapy problems, such as potential drug interactions and duplicate prescriptions.

On a daily basis, information on recipient eligibility is electronically updated on the basis of information from OHIP's Registered Persons Database as well as from the Ministry of Community and Social Services (MCSS) on recipients of social assistance. Changes to the pharmacy database are made based on written notifications from pharmacies, which are confirmed with the Ontario College of Pharmacists.

We reviewed the adequacy of the Ministry of Health and Long-Term Care's procedures for updating its recipient and pharmacy databases and tested a sample of the system's edits. We found that the edits were generally operating as described. However, we also noted the following concerns:

- There was no periodic confirmation with the Ontario College of Pharmacists on the ongoing status of pharmacies. We also found instances where there was no documentation to support the addition or deletion of a pharmacy from the Network.
- A number of records, when checked against the Network's recipients database, which was updated daily, were rejected due to mismatched or missing information, and these cases were outlined in daily exception reports. However, the Ministry did not review or address the cases identified in these exception reports.
- The Ministry did not regularly compare the data in the Network database with MCSS's database to validate data integrity. Missing records or errors might never be noticed or resolved.

Recommendation

To help ensure that pharmacy data within the Health Network System (Network) is complete and accurate, the Ministry should periodically verify pharmacy registrations with the Ontario College of Pharmacists.

To help ensure that only eligible individuals receive benefits through the Ontario Drug Benefit Program, the Ministry should:

- **review and follow up on exception reports, which identify mismatched or missing information in the Network's recipients database; and**
- **regularly compare data in the Ministry of Community and Social Services' database with the Network's database.**

Ministry Response

The Ministry's Pharmacy Registration Desk liaises with the Ontario College of Pharmacists (OCP) on a daily basis to verify pharmacy closings and pharmacy ownership information that has been provided directly to the Ministry. The Ministry will continue reviewing ways to enhance verification of OCP registration information, consider making this a mandatory part of the network agreement, and investigate the potential for regular data updates with OCP.

The Ministry carried out a review of exception reports in June, July, and August 2001 and is satisfied that they do not result in errors in claims processing. For the recipient data feed updates, the majority of missing information and/or mismatches did not affect recipient coverage. The Ministry will conduct periodic reviews of exception reports.

The Ministry is working with the Ministry of Community and Social Services to ensure that recipient information is as accurate and up to date as possible.

Recommendation

When selecting a vendor to provide long-term services without using a competitive process, the Ministry should ensure that it:

- **receives value for money through respective contracts with such vendors; and**
- **complies with Management Board of Cabinet directives.**

Ministry Response

Prior to the current contract, the Ministry retained external consultants to evaluate the vendor services, and it is satisfied that the opinions obtained from the consultants supported the agreement. The Health Network System is complex and highly customized to meet Ontario's needs, with elements such as eligibility and processing rules. Because the Network has many unique features, the consultants found that no direct comparisons could be made with other systems or contractual arrangements.

The contract with the current vendor is for five years. During this period the Ministry will evaluate the services provided and the options available for future operations and for the maintenance and development of the Health Network System. An extensive evaluation of the Network will be commissioned in the third year of the current contract.

The Ministry will ensure that it is in compliance with all Board directives.

CLAIMS PROCESSING

The Health Network System maintains a number of databases that are used to validate a pharmacy's claim for payment. These databases comprise listings of eligible recipients and approved pharmacies, the Network's processing edits and adjudication rules, and the Formulary. When a pharmacy inputs a claim, the Network verifies the eligibility of the individual and the drug claimed and calculates any deductibles or payments to be made by the recipient. It also checks the prescription for possible drug therapy problems, such as potential drug interactions and duplicate prescriptions.

On a daily basis, information on recipient eligibility is electronically updated on the basis of information from OHIP's Registered Persons Database as well as from the Ministry of Community and Social Services (MCSS) on recipients of social assistance. Changes to the pharmacy database are made based on written notifications from pharmacies, which are confirmed with the Ontario College of Pharmacists.

We reviewed the adequacy of the Ministry of Health and Long-Term Care's procedures for updating its recipient and pharmacy databases and tested a sample of the system's edits. We found that the edits were generally operating as described. However, we also noted the following concerns:

- There was no periodic confirmation with the Ontario College of Pharmacists on the ongoing status of pharmacies. We also found instances where there was no documentation to support the addition or deletion of a pharmacy from the Network.
- A number of records, when checked against the Network's recipients database, which was updated daily, were rejected due to mismatched or missing information, and these cases were outlined in daily exception reports. However, the Ministry did not review or address the cases identified in these exception reports.
- The Ministry did not regularly compare the data in the Network database with MCSS's database to validate data integrity. Missing records or errors might never be noticed or resolved.

Recommendation

To help ensure that pharmacy data within the Health Network System (Network) is complete and accurate, the Ministry should periodically verify pharmacy registrations with the Ontario College of Pharmacists.

To help ensure that only eligible individuals receive benefits through the Ontario Drug Benefit Program, the Ministry should:

- **review and follow up on exception reports, which identify mismatched or missing information in the Network's recipients database; and**
- **regularly compare data in the Ministry of Community and Social Services' database with the Network's database.**

Ministry Response

The Ministry's Pharmacy Registration Desk liaises with the Ontario College of Pharmacists (OCP) on a daily basis to verify pharmacy closings and pharmacy ownership information that has been provided directly to the Ministry. The Ministry will continue reviewing ways to enhance verification of OCP registration information, consider making this a mandatory part of the network agreement, and investigate the potential for regular data updates with OCP.

The Ministry carried out a review of exception reports in June, July, and August 2001 and is satisfied that they do not result in errors in claims processing. For the recipient data feed updates, the majority of missing information and/or mismatches did not affect recipient coverage. The Ministry will conduct periodic reviews of exception reports.

The Ministry is working with the Ministry of Community and Social Services to ensure that recipient information is as accurate and up to date as possible.

Temporary Eligibility

Because of delays in updating recipient eligibility files, pharmacists are permitted to establish temporary eligibility for individuals (except seniors) who provide adequate evidence of eligibility, such as a drug card from the Ministry of Community and Social Services (MCSS) or a Home Care Program drug card issued by the Ministry of Health and Long-Term Care. Pharmacies are required to keep copies of the supporting documentation used to assess eligibility for two years. Eligibility is subsequently to be confirmed once the Network receives an update from either MCSS or the Home Care Program.

At our request, the Branch provided data on temporary eligibility granted to social-assistance and home-care recipients during the 1999/2000 fiscal year. The data indicated that pharmacists had provided temporary eligibility to approximately 335,000 recipients during that period. We attempted to quantify the number of these claims that remained unsubstantiated. However, branch staff indicated that, due to system complexities, only a one-percent sample could be provided. We determined that, for that sample, approximately 55% of the claims for temporary eligibility remained unsubstantiated by the Network. Based on the results of this sample, temporary eligibility granted to more than 180,000 recipients remained unsubstantiated.

In 1996, when we recommended that the Ministry of Health and Long-Term Care institute procedures for testing the legitimacy of temporary eligibility, it responded that it was working with MCSS to improve the timeliness and accuracy of its data feed to the Health Network System. During our current audit, branch staff stated that they were still in the process of improving the data feed. This improvement could reduce the frequency of temporary eligibility granted, given that approximately 70% of all temporary eligibility granted in the 1999/2000 fiscal year was related to social-assistance recipients.

Recommendation

To help ensure that temporary eligibility is being granted only where justified, the Ministry should:

- **periodically verify the adequacy of supporting documentation maintained by pharmacies where there are significant numbers of unsubstantiated claims; and**
- **together with the Ministry of Community and Social Services (MCSS), expedite necessary improvements to the MCSS database.**

Ministry Response

MCSS maintains and updates the information contained in their database. The Ministry receives regular feeds from MCSS to update the eligibility and personal information contained in the Ministry's Health Network System for MCSS recipients under the Ontario Drug Benefit Program.

A major redevelopment of the MCSS recipient eligibility information system was initiated in 1999. A phase-in of daily update feeds started in May 2001 and will be completed by February 2002. Daily updates will reduce cases of temporary eligibility to exceptional circumstances only. The two ministries are

working together to continue to improve the eligibility data feeds to ensure that recipient eligibility information is accurate and up to date. It is expected that the number of times that a pharmacist has to establish temporary eligibility will be minimal.

The Branch will monitor dispensaries that have a higher-than-average number of claims for recipients for whom temporary eligibility was established.

Warning and Information Messages

When a pharmacist inputs a prescription into a computer linked to the Health Network System, the Network uses information about the new prescription and the individual's previous prescriptions to identify potential drug therapy problems, such as possibly serious drug interactions or duplicate prescriptions. When the Network identifies potentially serious problems, it rejects the prescription for payment and sends a warning to the pharmacy that is displayed on the pharmacist's computer. For less serious problems, such as prescriptions being filled too soon after a previous prescription, the Network accepts the prescription but sends an information message about the problem to the pharmacist.

In cases where prescriptions have been rejected, the pharmacist may resubmit the claim with an appropriate intervention code that indicates the action that has been taken to resolve the issue identified by the warning. For example, the pharmacist might indicate that the prescriber was consulted to ensure that the prescription should still be filled.

According to ministry statistics, in the 2000/01 fiscal year, the Network sent 1.6 million warnings to pharmacists that related to serious drug interactions. In 90% of these cases, pharmacists resubmitted the claim, and the prescription was processed. In most of these cases, pharmacists indicated that they had determined the prescription was appropriate. However, without conducting a proper evaluation, the Ministry cannot determine whether certain warning messages should be revised.

Also during the 2000/01 fiscal year, the Network sent pharmacies 20 million information messages that identified less serious drug interactions and other potential drug therapy problems, such as patients obtaining the same prescription from more than one doctor. In 5% of these cases, prescriptions were not filled and the claim was reversed by the pharmacist. The specific reasons for the reversals of these claims cannot be determined because pharmacists are not required to submit an explanation. In fact, explanations were only submitted for 30 of the claims that were reversed. Without a proper evaluation, the Ministry cannot assess the impact of the information messages sent to pharmacists.

In our 1996 audit, we recommended that the Ministry assess whether the intended benefits of the Health Network System had been realized. At that time, the Ministry responded that it intended to enhance the Network's ability to identify potential drug therapy problems.

Though the Network currently identifies drug interactions, it does not perform a therapeutic duplication check to determine whether a prescription contains ingredients in the same therapeutic class as other drugs prescribed to an individual. The intent of such a check would be to avoid adding a new drug where it may lead to too strong an effect. This check would be especially useful when the patient is consulting more than one prescriber. Where pharmacists in

Temporary Eligibility

Because of delays in updating recipient eligibility files, pharmacists are permitted to establish temporary eligibility for individuals (except seniors) who provide adequate evidence of eligibility, such as a drug card from the Ministry of Community and Social Services (MCSS) or a Home Care Program drug card issued by the Ministry of Health and Long-Term Care. Pharmacies are required to keep copies of the supporting documentation used to assess eligibility for two years. Eligibility is subsequently to be confirmed once the Network receives an update from either MCSS or the Home Care Program.

At our request, the Branch provided data on temporary eligibility granted to social-assistance and home-care recipients during the 1999/2000 fiscal year. The data indicated that pharmacists had provided temporary eligibility to approximately 335,000 recipients during that period. We attempted to quantify the number of these claims that remained unsubstantiated. However, branch staff indicated that, due to system complexities, only a one-percent sample could be provided. We determined that, for that sample, approximately 55% of the claims for temporary eligibility remained unsubstantiated by the Network. Based on the results of this sample, temporary eligibility granted to more than 180,000 recipients remained unsubstantiated.

In 1996, when we recommended that the Ministry of Health and Long-Term Care institute procedures for testing the legitimacy of temporary eligibility, it responded that it was working with MCSS to improve the timeliness and accuracy of its data feed to the Health Network System. During our current audit, branch staff stated that they were still in the process of improving the data feed. This improvement could reduce the frequency of temporary eligibility granted, given that approximately 70% of all temporary eligibility granted in the 1999/2000 fiscal year was related to social-assistance recipients.

Recommendation

To help ensure that temporary eligibility is being granted only where justified, the Ministry should:

- **periodically verify the adequacy of supporting documentation maintained by pharmacies where there are significant numbers of unsubstantiated claims; and**
- **together with the Ministry of Community and Social Services (MCSS), expedite necessary improvements to the MCSS database.**

Ministry Response

MCSS maintains and updates the information contained in their database. The Ministry receives regular feeds from MCSS to update the eligibility and personal information contained in the Ministry's Health Network System for MCSS recipients under the Ontario Drug Benefit Program.

A major redevelopment of the MCSS recipient eligibility information system was initiated in 1998. A phase-in of daily update feeds started in May 2001 and will be completed by February 2002. Daily updates will reduce cases of temporary eligibility to exceptional circumstances only. The two ministries are

working together to continue to improve the eligibility data feeds to ensure that recipient eligibility information is accurate and up to date. It is expected that the number of times that a pharmacist has to establish temporary eligibility will be minimal.

The Branch will monitor dispensaries that have a higher-than-average number of claims for recipients for whom temporary eligibility was established.

Warning and Information Messages

When a pharmacist inputs a prescription into a computer linked to the Health Network System, the Network uses information about the new prescription and the individual's previous prescriptions to identify potential drug therapy problems, such as possibly serious drug interactions or duplicate prescriptions. When the Network identifies potentially serious problems, it rejects the prescription for payment and sends a warning to the pharmacy that is displayed on the pharmacist's computer. For less serious problems, such as prescriptions being filled too soon after a previous prescription, the Network accepts the prescription but sends an information message about the problem to the pharmacist.

In cases where prescriptions have been rejected, the pharmacist may resubmit the claim with an appropriate intervention code that indicates the action that has been taken to resolve the issue identified by the warning. For example, the pharmacist might indicate that the prescriber was consulted to ensure that the prescription should still be filled.

According to ministry statistics, in the 2000/01 fiscal year, the Network sent 1.6 million warnings to pharmacists that related to serious drug interactions. In 90% of these cases, pharmacists resubmitted the claim, and the prescription was processed. In most of these cases, pharmacists indicated that they had determined the prescription was appropriate. However, without conducting a proper evaluation, the Ministry cannot determine whether certain warning messages should be revised.

Also during the 2000/01 fiscal year, the Network sent pharmacies 20 million information messages that identified less serious drug interactions and other potential drug therapy problems, such as patients obtaining the same prescription from more than one doctor. In 5% of these cases, prescriptions were not filled and the claim was reversed by the pharmacist. The specific reasons for the reversals of these claims cannot be determined because pharmacists are not required to submit an explanation. In fact, explanations were only submitted for 30 of the claims that were reversed. Without a proper evaluation, the Ministry cannot assess the impact of the information messages sent to pharmacists.

In our 1996 audit, we recommended that the Ministry assess whether the intended benefits of the Health Network System had been realized. At that time, the Ministry responded that it intended to enhance the Network's ability to identify potential drug therapy problems.

Though the Network currently identifies drug interactions, it does not perform a therapeutic duplication check to determine whether a prescription contains ingredients in the same therapeutic class as other drugs prescribed to an individual. The intent of such a check would be to avoid adding a new drug where it may lead to too strong an effect. This check would be especially useful when the patient is consulting more than one prescriber. Where pharmacists in other jurisdictions have been surveyed about this matter, they have rated therapeutic duplication checks as being almost as useful as information about drug interactions. A survey in one jurisdiction found that most pharmacists agreed that their system's therapeutic duplication check identified problems that would otherwise go unnoticed.

Recommendation

To improve the effectiveness of the Health Network System's warnings and information messages, the Ministry should assess whether:

- **the existing warning and information messages need to be revised; and**
- **other potential drug therapy problems, such as a therapeutic duplication check, should be added to the Network.**

Ministry Response

The Health Network System uses Drug Use Review tables developed by an external service provider. These are the tables most commonly used for drug interactions and warnings. The tables now in place in the Network are the most up-to-date versions available on the market and include a check on therapeutic ingredients and therapeutic duplication that identifies drugs in the same therapeutic class.

The Drug Use Review tables are a standardized system that helps pharmacists identify potential drug-related problems. Pharmacists decide what action is required within their scope and standards of practice.

The Ministry will investigate whether additional modules are available and necessary.

SYSTEM SECURITY

System security guidelines and procedures generally outline the security aspects of a computer system and cover such areas as: the accountability and responsibility of management and of security and user groups; access administration (including the set-up, modification, and deletion of user accounts); and security monitoring.

In March 1998, Management Board Secretariat issued a Directive on Information and Information Technology Security. The Directive stated that the security measures within a ministry must be co-ordinated by "a senior executive who is responsible for information and information technology security." At the time of our audit, we noted that no senior executive responsible for security had been appointed for the Health Network System. In addition, documentation of ministry security procedures was not up to date, and the private-sector service provider was still developing security-related procedures to administer the Network. By the end of our audit, the service provider had not yet set a completion date for the development of the procedures.

During our audit, we identified a number of areas where security for the Network required improvement. For instance, all users of the Network are to be assigned to user groups. For each user group, a business case is required to determine the standardized functions these users may perform and the data they may access. The Ministry was unable to provide supporting documentation for 10% of the user groups we reviewed, and, accordingly, we were unable to determine whether the system access assigned to those user groups was appropriate.

We found that two user groups had system access privileges that would allow them to both set up pharmacy accounts, including banking information, and process claims. Setting up accounts and processing claims should normally be segregated to help reduce the risk of false claims being processed.

According to the Ministry's security procedures, access to the Network requires approval from the Ministry's network security administrator. Any system access changes should be documented and properly approved before being processed by the service provider. At the time of our audit, we noted the following:

- A few users obtained system access or their access privileges were modified by the network service provider without the proper requests and authorization from the Ministry. As a result, system access privileges might have been inappropriately assigned, and the Ministry's security administrator was unable to perform regular access reviews.
- The service provider set up new user accounts and provided the passwords to individuals besides the users. In our opinion, these individuals did not require these passwords to perform the tasks and responsibilities assigned to them.
- The security administrator was not notified to terminate system access when users left their job function.

We also found that the protection of data and system files could be improved. For instance, service provider employees who had privileged system access allowed their files to be modified by other staff members, potentially exposing the system and data files to unauthorized viewing and modification. The service provider also did not adequately track which individuals had system access. We found cases where user identifications had been issued without a defined owner.

Monitoring is an important detective control for identifying security breaches and abuse of privileges. We noted that the Ministry was still in the process of developing procedures for monitoring security.

Recommendation

To help safeguard information in the Health Network System against unauthorized use, disclosure, modification, damage, or loss, the Ministry should:

- **assign the responsibility for the Network's security to an appropriate senior manager;**
- **ensure appropriate security policies and procedures are in place;**
- **review staff duties to ensure that system access is appropriate;**
- **implement more rigorous controls over the access administration process and system protection; and**
- **ensure that the Network's security is actively monitored.**

other jurisdictions have been surveyed about this matter, they have rated therapeutic duplication checks as being almost as useful as information about drug interactions. A survey in one jurisdiction found that most pharmacists agreed that their system's therapeutic duplication check identified problems that would otherwise go unnoticed.

Recommendation

To improve the effectiveness of the Health Network System's warnings and information messages, the Ministry should assess whether:

- **the existing warning and information messages need to be revised; and**
- **other potential drug therapy problems, such as a therapeutic duplication check, should be added to the Network.**

Ministry Response

The Health Network System uses Drug Use Review tables developed by an external service provider. These are the tables most commonly used for drug interactions and warnings. The tables now in place in the Network are the most up-to-date versions available on the market and include a check on therapeutic ingredients and therapeutic duplication that identifies drugs in the same therapeutic class.

The Drug Use Review tables are a standardized system that helps pharmacists identify potential drug-related problems. Pharmacists decide what action is required within their scope and standards of practice.

The Ministry will investigate whether additional modules are available and necessary.

SYSTEM SECURITY

System security guidelines and procedures generally outline the security aspects of a computer system and cover such areas as: the accountability and responsibility of management and of security and user groups; access administration (including the set-up, modification, and deletion of user accounts); and security monitoring.

In March 1998, Management Board Secretariat issued a Directive on Information and Information Technology Security. The Directive stated that the security measures within a ministry must be co-ordinated by "a senior executive who is responsible for information and information technology security." At the time of our audit, we noted that no senior executive responsible for security had been appointed for the Health Network System. In addition, documentation of ministry security procedures was not up to date, and the private-sector service provider was still developing security-related procedures to administer the Network. By the end of our audit, the service provider had not yet set a completion date for the development of the procedures.

During our audit, we identified a number of areas where security for the Network required improvement. For instance, all users of the Network are to be assigned to user groups. For each user group, a business case is required to determine the standardized functions these users may perform and the data they may access. The Ministry was unable to provide supporting documentation for 10% of the user groups we reviewed, and, accordingly, we were unable to determine whether the system access assigned to those user groups was appropriate.

We found that two user groups had system access privileges that would allow them to both set up pharmacy accounts, including banking information, and process claims. Setting up accounts and processing claims should normally be segregated to help reduce the risk of false claims being processed.

According to the Ministry's security procedures, access to the Network requires approval from the Ministry's network security administrator. Any system access changes should be documented and properly approved before being processed by the service provider. At the time of our audit, we noted the following:

- A few users obtained system access or their access privileges were modified by the network service provider without the proper requests and authorization from the Ministry. As a result, system access privileges might have been inappropriately assigned, and the Ministry's security administrator was unable to perform regular access reviews.
- The service provider set up new user accounts and provided the passwords to individuals besides the users. In our opinion, these individuals did not require these passwords to perform the tasks and responsibilities assigned to them.
- The security administrator was not notified to terminate system access when users left their job function.

We also found that the protection of data and system files could be improved. For instance, service provider employees who had privileged system access allowed their files to be modified by other staff members, potentially exposing the system and data files to unauthorized viewing and modification. The service provider also did not adequately track which individuals had system access. We found cases where user identifications had been issued without a defined owner.

Monitoring is an important detective control for identifying security breaches and abuse of privileges. We noted that the Ministry was still in the process of developing procedures for monitoring security.

Recommendation

To help safeguard information in the Health Network System against unauthorized use, disclosure, modification, damage, or loss, the Ministry should:

- **assign the responsibility for the Network's security to an appropriate senior manager;**
- **ensure appropriate security policies and procedures are in place;**
- **review staff duties to ensure that system access is appropriate;**
- **implement more rigorous controls over the access administration process and system protection; and**
- **ensure that the Network's security is actively monitored.**

Ministry Response

The responsibility for the Network's security has been formally assigned to a senior manager in the Branch, and there is a clear delineation of roles in approvals on security-related matters.

Formalized Health Network System security provisions are in place and are documented. In keeping with the terms of the existing contract with the vendor, security protocols are regularly reviewed to ensure that appropriate security policies and processes are in place and that system access is appropriate.

The Ministry has initiated meetings with the service provider and the Human Services Cluster security group to review the security procedures and to address the above recommendations. Where warranted, enhanced security procedures will be implemented in winter 2002. It is a priority of the Ministry to compile all security procedures into a single document as part of this review.

The communications network meets current industry standards for security. The current communications network is scheduled for replacement by April 2003. The replacement network will meet all the security standards established by the Smart Systems for Health.

The security administrator or the security administrator's immediate supervisor grants access approvals. The Ministry will ensure that, during the review of the security procedures, it is clarified that both positions are authorized to approve system access requests.

The Ministry acknowledges that there were a few isolated incidents in the past where the service provider's technical staff did not have access approval from the system administrator. The Ministry is satisfied that no inappropriate access was granted, and such procedures have been tightened.

In terms of notifying the system administrator when people leave their job, the Ministry took immediate action on the identified users to remove their access in March 2001. Currently, the onus is on individual branch managers to notify the system administrator of staff changes. Notification of staff changes to the system administrator will be included in the above-noted security review.

Contract Management

A key requirement of an Alternative Service Delivery model is the development of a contract management function to effectively monitor the performance of the vendor regarding the contract terms and to take timely corrective action when required.

During the course of our audit, we reviewed contract management for two areas—the Health Network System and the seniors reduced co-payment.

HEALTH NETWORK SYSTEM CONTRACT

In December 2000, the Ministry engaged consultants to review the Branch's contract management practices relating to the Health Network System contract. In their March 2001 report, the consultants identified a number of opportunities for improvement that centred on the need to monitor adherence to contract terms by the Branch and the vendor. The consultants' recommendations included:

- the creation of a core group of staff, led by a Contract Manager;
- the development of a succession plan in case key system and program staff leave the Ministry; and
- the development of a strategic plan to address future hardware replacement and program/ policy changes, including the potential transfer of service delivery to another vendor.

The consultants concluded that the Branch would have to assess these opportunities for improvement and determine which ones would have the greatest impact, and then establish an implementation plan. Branch staff advised us that the Ministry had reviewed the consultants' report and was in the process of considering the recommendations.

SENIORS REDUCED CO-PAYMENT CONTRACT

Since July 1996, recipients of Ontario Drug Program benefits have been required to pay a portion of their prescription drug costs. The amount of the contribution is based on the recipient's income. All residents of long-term care facilities, individuals receiving home care, and seniors with incomes below certain thresholds receive a reduction in the amount of their co-payments.

To receive a reduction in the amount payable, seniors must show evidence of their income through an application process. Since 1996, a private-sector vendor was competitively selected and awarded contracts to administer this process.

The Ministry did not have procedures in place to verify processing accuracy, which is critical in ensuring recipients pay the correct amount towards their prescription drug costs. At the time of our audit, the Branch had not reviewed the accuracy of the vendor's procedures for approving applications and issuing refunds, nor had it assessed whether the minimum performance standards in the contract had been met. Standards included, for example, the time taken to process applications and receipts. While branch staff indicated to us that the vendor conducts periodic quality-assurance reviews of its activities, at the time of our audit the Branch had not received reports on the type of reviews conducted or the results.

Recommendation

To enhance accountability, the Ministry should ensure that it has adequate policies and procedures in place to monitor whether contracted services are carried out in accordance with the terms, conditions, and performance standards set out in contracts.

Ministry Response

The responsibility for the Network's security has been formally assigned to a senior manager in the Branch, and there is a clear delineation of roles in approvals on security-related matters.

Formalized Health Network System security provisions are in place and are documented. In keeping with the terms of the existing contract with the vendor, security protocols are regularly reviewed to ensure that appropriate security policies and processes are in place and that system access is appropriate.

The Ministry has initiated meetings with the service provider and the Human Services Cluster security group to review the security procedures and to address the above recommendations. Where warranted, enhanced security procedures will be implemented in winter 2002. It is a priority of the Ministry to compile all security procedures into a single document as part of this review.

The communications network meets current industry standards for security. The current communications network is scheduled for replacement by April 2003. The replacement network will meet all the security standards established by the Smart Systems for Health.

The security administrator or the security administrator's immediate supervisor grants access approvals. The Ministry will ensure that, during the review of the security procedures, it is clarified that both positions are authorized to approve system access requests.

The Ministry acknowledges that there were a few isolated incidents in the past where the service provider's technical staff did not have access approval from the system administrator. The Ministry is satisfied that no inappropriate access was granted, and such procedures have been tightened.

In terms of notifying the system administrator when people leave their job, the Ministry took immediate action on the identified users to remove their access in March 2001. Currently, the onus is on individual branch managers to notify the system administrator of staff changes. Notification of staff changes to the system administrator will be included in the above-noted security review.

Contract Management

A key requirement of an Alternative Service Delivery model is the development of a contract management function to effectively monitor the performance of the vendor regarding the contract terms and to take timely corrective action when required.

During the course of our audit, we reviewed contract management for two areas—the Health Network System and the seniors reduced co-payment.

HEALTH NETWORK SYSTEM CONTRACT

In December 2000, the Ministry engaged consultants to review the Branch's contract management practices relating to the Health Network System contract. In their March 2001 report, the consultants identified a number of opportunities for improvement that centred on the need to monitor adherence to contract terms by the Branch and the vendor. The consultants' recommendations included:

- the creation of a core group of staff, led by a Contract Manager;
- the development of a succession plan in case key system and program staff leave the Ministry; and
- the development of a strategic plan to address future hardware replacement and program/ policy changes, including the potential transfer of service delivery to another vendor.

The consultants concluded that the Branch would have to assess these opportunities for improvement and determine which ones would have the greatest impact, and then establish an implementation plan. Branch staff advised us that the Ministry had reviewed the consultants' report and was in the process of considering the recommendations.

SENIORS REDUCED CO-PAYMENT CONTRACT

Since July 1996, recipients of Ontario Drug Program benefits have been required to pay a portion of their prescription drug costs. The amount of the contribution is based on the recipient's income. All residents of long-term care facilities, individuals receiving home care, and seniors with incomes below certain thresholds receive a reduction in the amount of their co-payments.

To receive a reduction in the amount payable, seniors must show evidence of their income through an application process. Since 1996, a private-sector vendor was competitively selected and awarded contracts to administer this process.

The Ministry did not have procedures in place to verify processing accuracy, which is critical in ensuring recipients pay the correct amount towards their prescription drug costs. At the time of our audit, the Branch had not reviewed the accuracy of the vendor's procedures for approving applications and issuing refunds, nor had it assessed whether the minimum performance standards in the contract had been met. Standards included, for example, the time taken to process applications and receipts. While branch staff indicated to us that the vendor conducts periodic quality-assurance reviews of its activities, at the time of our audit the Branch had not received reports on the type of reviews conducted or the results.

Recommendation

To enhance accountability, the Ministry should ensure that it has adequate policies and procedures in place to monitor whether contracted services are carried out in accordance with the terms, conditions, and performance standards set out in contracts.

Ministry Response

Under the new contract, effective May 1, 2001 payment for contracted services is based on "cost per unit of work performed"—that is, the cost of a work unit such as the processing of an application or receipt or the handling of a telephone call. This unit cost of work includes all administrative and business costs for the service provider. No separate payment is made for staffing. The Branch is working with the Ministry's internal audit branch to implement procedures for periodic reviews during the term of the new contract.

Inspections and Verification

At the end of our current audit, the Branch had five inspectors in its Inspection Unit reporting to a manager who, in addition to other responsibilities, supervised the inspectors. The primary responsibility of the Unit is to ensure that the claims paid by the Ontario Drug Benefit and Trillium Drug programs are valid. Where fraud is suspected, the case is referred to the Ministry's Investigation Unit. During the 2000/01 fiscal year, the Inspection Unit completed approximately 110 inspections, identifying $575,000 in recoveries and referring two cases to the Investigation Unit.

INSPECTION RESOURCES

In our 1996 audit report, we recommended that, to ensure that pharmacies are inspected on a timely basis, the Ministry should implement a system for prioritizing and scheduling inspections, including an annual inspection plan approved by management. The Ministry responded that it was developing a Pharmaceutical Audit System as part of an enhancement of the Health Network as well as an annual inspection plan. The Pharmaceutical Audit System would assist in setting priorities and scheduling inspections, and it would maintain a record of a pharmacy's last inspection and the outcome.

In its 1996/97 Annual Report, the Standing Committee on Public Accounts made the following recommendation:

> the Ministry has said that the Pharmaceutical Audit System should be fully implemented by September 30, 1997. The Committee should be provided with a detailed accounting of the ways in which the system will respond to the Provincial Auditor's recommendations regarding the inspection process, along with an analysis of the impact on inspection resources and potential changes to legislation.

In February 1998, the initial phase of the Pharmaccutical Audit System was implemented. However, inspectors whom we interviewed during our current audit indicated that the Pharmaceutical Audit System did not meet their needs. For example, the system was unable to generate sufficient samples where there were large volumes of claims.

In addition, we noted there was no annual inspection plan for the 2000/01 fiscal year. Some inspectors had submitted plans in the previous year but had not indicated which pharmacies they planned to inspect. While annual inspection plans must be able to accommodate changes in priorities, such as those caused by findings or complaints, the plans should be reviewed and approved by management to help ensure that inspection resources are appropriately allocated. Plans should indicate the pharmacies selected for inspection and the reasons for selection.

Adequate policies, procedures, and information systems help ensure that inspections are conducted properly and efficiently. Management review provides assurance that the policies and procedures are being adhered to. In 1996, we noted that the Branch did not have formal policies or procedures for conducting inspections. In response, the Ministry stated that a draft manual of inspection policy and procedures was being developed. At the time of our current audit, the manual was still in draft form and did not address certain concerns identified in our previous audit. For instance, based on discussions with inspectors and a review of a sample of inspection files, we found that documentation was insufficient to determine whether required standard procedures were performed. Furthermore, the standard inspection reports we reviewed were insufficient for management to determine which procedures had been performed. We also noted that the time periods over which recoveries were calculated was not always consistent.

Recommendation

To help ensure that inspection resources are used efficiently and effectively, the Ministry should:

- **implement needed improvements to the Pharmaceutical Audit System to facilitate the work of inspectors;**
- **ensure inspection plans are prepared and approved by branch management;**
- **provide for sufficient management review of the work of inspectors; and**
- **review the adequacy of the policies and procedures in the draft manual.**

Ministry Response

Phase II of the Pharmaceutical Audit System of the Health Network System will be implemented in June 2002.

Inspection plans, approved by branch management, will be in place by the end of October 2001.

Management's review of inspections has been formalized. The policies and procedures manual will be reviewed, and suggested recommendations will be considered. The manual will be finalized by February 2002.

INSPECTION COVERAGE

At the end of our 1996 audit, we noted that one of the five inspector positions in the Branch was vacant. At that time, we were informed that approval had been obtained to fill the position. However, this position remained vacant until October 30, 2000. Branch management informed us that, during the more than four years that the position was vacant, the only inspections conducted in the affected territory were as a result of complaints—even though this territory accounted for approximately 20% of annual ministry expenditures for the Ontario Drug Benefit and Trillium Drug programs.

Ministry Response

Under the new contract, effective May 1, 2001 payment for contracted services is based on "cost per unit of work performed"—that is, the cost of a work unit such as the processing of an application or receipt or the handling of a telephone call. This unit cost of work includes all administrative and business costs for the service provider. No separate payment is made for staffing. The Branch is working with the Ministry's internal audit branch to implement procedures for periodic reviews during the term of the new contract.

Inspections and Verification

At the end of our current audit, the Branch had five inspectors in its Inspection Unit reporting to a manager who, in addition to other responsibilities, supervised the inspectors. The primary responsibility of the Unit is to ensure that the claims paid by the Ontario Drug Benefit and Trillium Drug programs are valid. Where fraud is suspected, the case is referred to the Ministry's Investigation Unit. During the 2000/01 fiscal year, the Inspection Unit completed approximately 110 inspections, identifying $575,000 in recoveries and referring two cases to the Investigation Unit.

INSPECTION RESOURCES

In our 1996 audit report, we recommended that, to ensure that pharmacies are inspected on a timely basis, the Ministry should implement a system for prioritizing and scheduling inspections, including an annual inspection plan approved by management. The Ministry responded that it was developing a Pharmaceutical Audit System as part of an enhancement of the Health Network as well as an annual inspection plan. The Pharmaceutical Audit System would assist in setting priorities and scheduling inspections, and it would maintain a record of a pharmacy's last inspection and the outcome.

In its 1996/97 Annual Report, the Standing Committee on Public Accounts made the following recommendation:

> the Ministry has said that the Pharmaceutical Audit System should be fully implemented by September 30, 1997. The Committee should be provided with a detailed accounting of the ways in which the system will respond to the Provincial Auditor's recommendations regarding the inspection process, along with an analysis of the impact on inspection resources and potential changes to legislation.

In February 1998, the initial phase of the Pharmaceutical Audit System was implemented. However, inspectors whom we interviewed during our current audit indicated that the Pharmaceutical Audit System did not meet their needs. For example, the system was unable to generate sufficient samples where there were large volumes of claims.

In addition, we noted there was no annual inspection plan for the 2000/01 fiscal year. Some inspectors had submitted plans in the previous year but had not indicated which pharmacies they planned to inspect. While annual inspection plans must be able to accommodate changes in priorities, such as those caused by findings or complaints, the plans should be reviewed and approved by management to help ensure that inspection resources are appropriately allocated. Plans should indicate the pharmacies selected for inspection and the reasons for selection.

Adequate policies, procedures, and information systems help ensure that inspections are conducted properly and efficiently. Management review provides assurance that the policies and procedures are being adhered to. In 1996, we noted that the Branch did not have formal policies or procedures for conducting inspections. In response, the Ministry stated that a draft manual of inspection policy and procedures was being developed. At the time of our current audit, the manual was still in draft form and did not address certain concerns identified in our previous audit. For instance, based on discussions with inspectors and a review of a sample of inspection files, we found that documentation was insufficient to determine whether required standard procedures were performed. Furthermore, the standard inspection reports we reviewed were insufficient for management to determine which procedures had been performed. We also noted that the time periods over which recoveries were calculated was not always consistent.

Recommendation

To help ensure that inspection resources are used efficiently and effectively, the Ministry should:

- **implement needed improvements to the Pharmaceutical Audit System to facilitate the work of inspectors;**
- **ensure inspection plans are prepared and approved by branch management;**
- **provide for sufficient management review of the work of inspectors; and**
- **review the adequacy of the policies and procedures in the draft manual.**

Ministry Response

Phase II of the Pharmaceutical Audit System of the Health Network System will be implemented in June 2002.

Inspection plans, approved by branch management, will be in place by the end of October 2001.

Management's review of inspections has been formalized. The policies and procedures manual will be reviewed, and suggested recommendations will be considered. The manual will be finalized by February 2002.

INSPECTION COVERAGE

At the end of our 1996 audit, we noted that one of the five inspector positions in the Branch was vacant. At that time, we were informed that approval had been obtained to fill the position. However, this position remained vacant until October 30, 2000. Branch management informed us that, during the more than four years that the position was vacant, the only inspections conducted in the affected territory were as a result of complaints—even though this territory accounted for approximately 20% of annual ministry expenditures for the Ontario Drug Benefit and Trillium Drug programs.

As of April 2001, over 3,300 dispensing agencies, including approximately 2,700 retail pharmacies, were operating in Ontario. Branch management estimated that most agencies were only being inspected once every 10 years. This means that most billings would not be inspected since routine inspections only cover the previous two years. In addition, in some instances, more time-consuming, in-depth inspections are required. The Branch has not assessed how frequently agencies should be inspected.

Given the inspection resources available, we were informed that inspectors focused their efforts on pharmacies judged to be potentially at high risk for fraud or error. We recognize that many factors enter into determining which pharmacies are high risk. We requested a report of pharmacies whose billings suggested they might be high risk and obtained information about pharmacists who had been disciplined by the College of Pharmacists for offences suggesting a lack of integrity. Based on our review, we concluded that there were a number of agencies that should have been inspected but were not. Branch management indicated that they planned to inspect some of them in the next year. The timeliness of the inspection of high-risk pharmacies is an important consideration when assessing whether the available inspection resources are adequate.

Inspections, in conjunction with similar activities such as verification letters, need to be sufficient in order to detect significant billing errors and create a "sentinel effect," whereby it is known that pharmacies put themselves at significant risk of detection if they process false claims.

Recommendation

To minimize the risk of paying for invalid claims, the Ministry should ensure that sufficient resources are assigned for the inspection of pharmacies.

Ministry Response

The Ministry has a policy of zero tolerance on fraud and reports all cases of suspected fraud to the Ministry's Fraud Unit.

The Ministry has reviewed and will continue to review inspection activities in other provinces and jurisdictions to determine the most effective method of identifying and inspecting high-risk pharmacies.

The Ministry will review the resources in place to inspect pharmacies.

VERIFICATION LETTERS

In our 1991 and 1996 audit reports, we stressed the importance of having adequate procedures to verify, on a test basis, the validity of the claims the Ministry was paying. In 1996, the Ministry stated that an enhancement planned for the Pharmaceutical Audit System would allow for a random selection of claims to be verified. During our current audit, we found that this had still not been done. In fact, as was the case when we conducted our audit in 1996, verification letters were only being sent to prescribers and recipients to verify the billings of pharmacies where false claims were suspected. For instance, in 2000, a total of 570 verification letters were sent to prescribers and patients as part of the inspections of two pharmacies.

As part of our current audit, we obtained information on the verification processes used by drug plans in British Columbia, Florida, and the state of New York. We found that all three routinely sent verification letters to recipients to confirm that prescriptions billed by pharmacists were actually received by the patient. For example, the province of British Columbia indicated that it annually sent out approximately 18,000 randomly selected verification letters. Drug plans in Florida and New York had similar processes whereby claims for verification were selected randomly based on risk assessments.

For some other ministry-administered programs in Ontario, such as OHIP, the Ministry sends random verification letters to patients to confirm the receipt of services. Furthermore, in April 2001, as part of its initiative to increase the accountability of the broader public sector, the government indicated that it would be developing itemized statements to send to patients to confirm that services billed to OHIP on their behalf were actually provided. Verification letters can be an efficient way of ensuring that drugs paid for by the Ontario Drug Benefit and Trillium Drug programs have been received. With adequate follow-up they can act as a significant deterrent to the processing of false claims.

Recommendation

To help ensure that the drug programs pay only for valid prescription claims submitted by pharmacists, the Ministry should implement adequate procedures to verify claims with recipients.

Ministry Response

At the discretion of the pharmacy liaison officer, verification letters may be issued to recipients and prescribers during a dispensary audit. In addition, information verification letters are issued to pharmacies by the help desk of the Health Network System requesting detailed information to support specific claims paid under the Ontario Drug Benefit Program.

The Branch will review the audit activities in other provinces and will work with the Anti-Fraud Branch and Audit Branch to ensure that its audit functions and resources are adequate.

VERIFICATION OF LIMITED-USE DRUG FORMS

In May 1996, the *Ontario Drug Benefit Act* was amended to add certain designated drugs to the Formulary that would be covered only if specified clinical criteria were met. Prior to that date, these limited-use drugs were not listed on the Formulary and required separate approval for funding.

In May and July 1996, pharmacists were reminded that claims for limited-use drugs were only eligible for payment when the criteria were met and supported by the appropriate, valid, properly completed, limited-use drug form signed by the prescriber. Pharmacists were advised that, in cases of non-compliance, amounts paid would be recovered.

As of April 2001, over 3,300 dispensing agencies, including approximately 2,700 retail pharmacies, were operating in Ontario. Branch management estimated that most agencies were only being inspected once every 10 years. This means that most billings would not be inspected since routine inspections only cover the previous two years. In addition, in some instances, more time-consuming, in-depth inspections are required. The Branch has not assessed how frequently agencies should be inspected.

Given the inspection resources available, we were informed that inspectors focused their efforts on pharmacies judged to be potentially at high risk for fraud or error. We recognize that many factors enter into determining which pharmacies are high risk. We requested a report of pharmacies whose billings suggested they might be high risk and obtained information about pharmacists who had been disciplined by the College of Pharmacists for offences suggesting a lack of integrity. Based on our review, we concluded that there were a number of agencies that should have been inspected but were not. Branch management indicated that they planned to inspect some of them in the next year. The timeliness of the inspection of high-risk pharmacies is an important consideration when assessing whether the available inspection resources are adequate.

Inspections, in conjunction with similar activities such as verification letters, need to be sufficient in order to detect significant billing errors and create a "sentinel effect," whereby it is known that pharmacies put themselves at significant risk of detection if they process false claims.

Recommendation

To minimize the risk of paying for invalid claims, the Ministry should ensure that sufficient resources are assigned for the inspection of pharmacies.

Ministry Response

The Ministry has a policy of zero tolerance on fraud and reports all cases of suspected fraud to the Ministry's Fraud Unit.

The Ministry has reviewed and will continue to review inspection activities in other provinces and jurisdictions to determine the most effective method of identifying and inspecting high-risk pharmacies.

The Ministry will review the resources in place to inspect pharmacies.

VERIFICATION LETTERS

In our 1991 and 1996 audit reports, we stressed the importance of having adequate procedures to verify, on a test basis, the validity of the claims the Ministry was paying. In 1996, the Ministry stated that an enhancement planned for the Pharmaceutical Audit System would allow for a random selection of claims to be verified. During our current audit, we found that this had still not been done. In fact, as was the case when we conducted our audit in 1996, verification letters were only being sent to prescribers and recipients to verify the billings of pharmacies where false claims were suspected. For instance, in 2000, a total of 570 verification letters were sent to prescribers and patients as part of the inspections of two pharmacies.

As part of our current audit, we obtained information on the verification processes used by drug plans in British Columbia, Florida, and the state of New York. We found that all three routinely sent verification letters to recipients to confirm that prescriptions billed by pharmacists were actually received by the patient. For example, the province of British Columbia indicated that it annually sent out approximately 18,000 randomly selected verification letters. Drug plans in Florida and New York had similar processes whereby claims for verification were selected randomly based on risk assessments.

For some other ministry-administered programs in Ontario, such as OHIP, the Ministry sends random verification letters to patients to confirm the receipt of services. Furthermore, in April 2001, as part of its initiative to increase the accountability of the broader public sector, the government indicated that it would be developing itemized statements to send to patients to confirm that services billed to OHIP on their behalf were actually provided. Verification letters can be an efficient way of ensuring that drugs paid for by the Ontario Drug Benefit and Trillium Drug programs have been received. With adequate follow-up they can act as a significant deterrent to the processing of false claims.

Recommendation

To help ensure that the drug programs pay only for valid prescription claims submitted by pharmacists, the Ministry should implement adequate procedures to verify claims with recipients.

Ministry Response

At the discretion of the pharmacy liaison officer, verification letters may be issued to recipients and prescribers during a dispensary audit. In addition, information verification letters are issued to pharmacies by the help desk of the Health Network System requesting detailed information to support specific claims paid under the Ontario Drug Benefit Program.

The Branch will review the audit activities in other provinces and will work with the Anti-Fraud Branch and Audit Branch to ensure that its audit functions and resources are adequate.

VERIFICATION OF LIMITED-USE DRUG FORMS

In May 1996, the *Ontario Drug Benefit Act* was amended to add certain designated drugs to the Formulary that would be covered only if specified clinical criteria were met. Prior to that date, these limited-use drugs were not listed on the Formulary and required separate approval for funding.

In May and July 1996, pharmacists were reminded that claims for limited-use drugs were only eligible for payment when the criteria were met and supported by the appropriate, valid, properly completed, limited-use drug form signed by the prescriber. Pharmacists were advised that, in cases of non-compliance, amounts paid would be recovered.

In January 1997, the Branch requested that approximately 2,500 pharmacies provide supporting documentation for approximately 10% of the limited-use claims submitted between May and December 1996. Approximately 1,900 pharmacies did not provide adequate supporting documentation to validate their claims. As a result of this audit, the Ministry estimated that approximately $4.5 million was recoverable from these pharmacies.

In October 1997, ministry staff met with representatives of the Ontario Pharmacists' Association to discuss the Association's concerns with the results of the audit. Ministry officials agreed to permit pharmacists to produce additional documentation to support the appropriateness of their claims. In November 1997, the Association's representatives met with the Minister, and there was agreement to defer recoveries until after the Ministry and the Association had held discussions about other initiatives. While these discussions were apparently completed in late 1998, no action was taken by the Ministry to begin recoveries.

In December 1998, the Ministry introduced new limited-use forms, and the criteria for some limited-use drugs were changed. Physicians and pharmacists were reminded that the new requirements would be enforced.

In June 2000, program staff informed senior ministry management of a plan to initiate recoveries identified by the 1997 audit. However, program staff believed it impossible to recover payments in cases where limited-use forms had invalid criteria, because pharmacists were not required to keep supporting documentation for more than two years. In January 2001, ministry staff estimated that this would reduce the amount to be recovered to $1.5 million—mainly representing instances where no form was provided to validate the claim or where the form had expired.

In early 2001, the Association was advised in writing "that the Ministry will not require any recovery of funds from the Limited Use Audit carried out in 1997. The Ministry considers this matter closed." However, we found that the Ministry had not followed the established processes that would permit it to forego the recovery of these funds under the terms of the *Financial Administration Act*.

Recommendation

To help ensure that the costs of limited-use drugs are only covered where warranted, the Ministry should:

- **ensure that adequate procedures are in place to periodically verify that limited-use claims are supported by valid documentation; and**
- **enforce recoveries where pharmacists do not provide adequate evidence that limited-use drug criteria have been met.**

Ministry Response

The Ministry is in the process of following the established processes and terms of the Financial Administration Act for recoveries in its limited-use audit to ensure appropriate accounting treatment with respect to write-off procedures.

The substantiation of limited-use claims is part of routine site inspections of pharmacies, and recoveries are instituted on all claims without appropriate documentation.

The Ministry plans to carry out periodic office audits of limited-use claims in the future, and recoveries will be made where claims are not supported by valid documentation.

TRILLIUM DRUG PROGRAM

The Trillium Drug Program was introduced in 1995 to provide financial assistance to individuals and families with high annual drug costs in relation to their incomes. To qualify for benefits, each individual or family must annually submit an application along with proof of income and any private insurance coverage. The Program covers all prescription drugs listed as benefits in the Ontario Drug Benefit Formulary. For the 2000/01 fiscal year, the Ministry's expenditures for the Trillium Drug Program totalled $77 million.

Recipient Deductibles

The Trillium Drug Program requires that applicants pay a deductible based on the household's annual net income and number of dependents. The annual deductible is the dollar value the recipient or household must spend on prescription drugs covered by the Program before becoming eligible to receive benefits from the Program. Currently, the deductible represents approximately 4% of a household's net income.

Since 1999, the annual deductible has been payable in quarterly instalments. Recipients who incur drug costs in excess of the quarterly instalment are then eligible for program benefits in that quarter. Recipients are required to pay $2.00 for each prescription processed after their deductible has been reached. In cases where a recipient does not pay the full amount of a quarterly instalment (because their drug costs do not exceed the deductible in that quarter), the unpaid portion is to be added to the next quarter's instalment.

We found that in implementing the quarterly instalments, the Branch did not adequately address the possibility that recipients could be eligible for benefits while not meeting their annual deductible amounts. For example, a family could receive substantial assistance and only pay one quarter of its deductible if all drug purchases were made during that quarter. A report prepared by the Branch for the 1999/2000 benefit year indicated that, for approximately 5,000 families who received a total of $3.7 million in benefits, approximately $750,000 in deductibles had not been applied against drug costs for that year. This occurred primarily because recipients were eligible for benefits in one or more, but not all four, quarters. The Ministry does not have a process in place for recovering deductibles that were not paid in these circumstances.

In January 1997, the Branch requested that approximately 2,500 pharmacies provide supporting documentation for approximately 10% of the limited-use claims submitted between May and December 1996. Approximately 1,900 pharmacies did not provide adequate supporting documentation to validate their claims. As a result of this audit, the Ministry estimated that approximately $4.5 million was recoverable from these pharmacies.

In October 1997, ministry staff met with representatives of the Ontario Pharmacists' Association to discuss the Association's concerns with the results of the audit. Ministry officials agreed to permit pharmacists to produce additional documentation to support the appropriateness of their claims. In November 1997, the Association's representatives met with the Minister, and there was agreement to defer recoveries until after the Ministry and the Association had held discussions about other initiatives. While these discussions were apparently completed in late 1998, no action was taken by the Ministry to begin recoveries.

In December 1998, the Ministry introduced new limited-use forms, and the criteria for some limited-use drugs were changed. Physicians and pharmacists were reminded that the new requirements would be enforced.

In June 2000, program staff informed senior ministry management of a plan to initiate recoveries identified by the 1997 audit. However, program staff believed it impossible to recover payments in cases where limited-use forms had invalid criteria, because pharmacists were not required to keep supporting documentation for more than two years. In January 2001, ministry staff estimated that this would reduce the amount to be recovered to $1.5 million—mainly representing instances where no form was provided to validate the claim or where the form had expired.

In early 2001, the Association was advised in writing "that the Ministry will not require any recovery of funds from the Limited Use Audit carried out in 1997. The Ministry considers this matter closed." However, we found that the Ministry had not followed the established processes that would permit it to forego the recovery of these funds under the terms of the *Financial Administration Act*.

Recommendation

To help ensure that the costs of limited-use drugs are only covered where warranted, the Ministry should:

- **ensure that adequate procedures are in place to periodically verify that limited-use claims are supported by valid documentation; and**
- **enforce recoveries where pharmacists do not provide adequate evidence that limited-use drug criteria have been met.**

Ministry Response

The Ministry is in the process of following the established processes and terms of the* Financial Administration Act *for recoveries in its limited-use audit to ensure appropriate accounting treatment with respect to write-off procedures.

The substantiation of limited-use claims is part of routine site inspections of pharmacies, and recoveries are instituted on all claims without appropriate documentation.

The Ministry plans to carry out periodic office audits of limited-use claims in the future, and recoveries will be made where claims are not supported by valid documentation.

TRILLIUM DRUG PROGRAM

The Trillium Drug Program was introduced in 1995 to provide financial assistance to individuals and families with high annual drug costs in relation to their incomes. To qualify for benefits, each individual or family must annually submit an application along with proof of income and any private insurance coverage. The Program covers all prescription drugs listed as benefits in the Ontario Drug Benefit Formulary. For the 2000/01 fiscal year, the Ministry's expenditures for the Trillium Drug Program totalled $77 million.

Recipient Deductibles

The Trillium Drug Program requires that applicants pay a deductible based on the household's annual net income and number of dependents. The annual deductible is the dollar value the recipient or household must spend on prescription drugs covered by the Program before becoming eligible to receive benefits from the Program. Currently, the deductible represents approximately 4% of a household's net income.

Since 1999, the annual deductible has been payable in quarterly instalments. Recipients who incur drug costs in excess of the quarterly instalment are then eligible for program benefits in that quarter. Recipients are required to pay $2.00 for each prescription processed after their deductible has been reached. In cases where a recipient does not pay the full amount of a quarterly instalment (because their drug costs do not exceed the deductible in that quarter), the unpaid portion is to be added to the next quarter's instalment.

We found that in implementing the quarterly instalments, the Branch did not adequately address the possibility that recipients could be eligible for benefits while not meeting their annual deductible amounts. For example, a family could receive substantial assistance and only pay one quarter of its deductible if all drug purchases were made during that quarter. A report prepared by the Branch for the 1999/2000 benefit year indicated that, for approximately 5,000 families who received a total of $3.7 million in benefits, approximately $750,000 in deductibles had not been applied against drug costs for that year. This occurred primarily because recipients were eligible for benefits in one or more, but not all four, quarters. The Ministry does not have a process in place for recovering deductibles that were not paid in these circumstances.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Recommendation

To better ensure that Trillium Drug Program benefits are provided in accordance with the intent of the Program, the Ministry should develop policies and procedures to:

- **reduce or eliminate underpayments of the deductible; and**
- **recover any underpaid deductibles.**

Ministry Response

The Ministry will institute a review of the computerized application of the quarterly deductible and will examine options for reducing or eliminating underpayments of the deductible and options for recovery.

SPECIAL DRUGS PROGRAM

The Special Drugs Program was introduced in 1986 to cover the cost of prescription drugs required for the treatment of specific health conditions, such as HIV and end-stage renal disease. To be eligible for coverage, an individual must be an Ontario resident, have a valid health insurance number, meet the clinical criteria, and have one of the conditions covered by the Program.

At the time of our current audit, there were 11 prescription drugs funded by the Program. Since 1993, new drugs that treat conditions covered under the Special Drugs Program, such as anti-rejection drugs for transplants, are added to the Formulary and are covered by the Ontario Drug Benefit or Trillium Drug programs. For the 2000/01 fiscal year, the Ministry's expenditures for the Special Drugs Program totalled $107 million.

Regulations under the *Ontario Health Insurance Act* provide the funding authority for special drugs and their corresponding conditions. Unlike the Ontario Drug Benefit and Trillium Drug programs, the Special Drugs Program does not require the payment of a deductible or co-payment for drugs provided. Instead, patients obtain these drugs free of charge on an outpatient basis from an authorized facility—usually a hospital—that the Ministry has designated to distribute the drugs.

In our *1996 Annual Report*, we recommended that the Ministry consider whether the Special Drugs Program was needed in its current form, given that the Trillium Drug Program covers people with high drug costs relative to their incomes, and, if it was needed, determine whether it was consistent with the Ontario Drug Benefit Program's objective of providing equitable protection. At that time, the Ministry agreed that consideration should be given to the consistency of the application of the objective of equitable protection. It also indicated that it would be reviewing the three programs to consider the possibility of redesigning their various components to ensure consistency and compatibility.

In January 1999, the Branch engaged a consultant to develop a plan to include the Special Drugs Program on the Health Network System. Initially, two drugs representing 67% of the expenditures of the Special Drugs Program were to be added to the Health Network System, and reimbursement would be managed in a way that was similar to that of the Ontario Drug

F5

Benefit and Trillium Drug programs. The consultant noted that this would enable the Branch to ascertain:

- the names of the prescriber, the recipient, and the authorizing hospital; and
- the name of the pharmacist who assesses the recipient's eligibility by confirming the recipient is an outpatient who is an Ontario resident, has a valid OHIP number, and has a medical condition that is covered by the Program.

This information would enable the Branch to check for potential drug interactions and duplicate prescriptions, as well as monitor drug use and trends. To date, no action has been taken with respect to the consultant's report.

Recommendation

The Ministry should consider whether the Special Drugs Program is needed in its current form and whether the administration of the Program could be integrated with the Ontario Drug Benefit and Trillium Drug programs.

Ministry Response

The Ministry will continue to review the Special Drugs Program and make recommendations to government on future action, as deemed appropriate.

Payment Processing

Hospitals that distribute drugs covered by the Special Drugs Program obtain these drugs directly from the manufacturer. The cost of the drugs is often determined through contracts between the Ministry, the hospital, and the manufacturer. Hospitals forward the invoices they have paid to the Branch for reimbursement. We reviewed the procedures used by the Branch to pay invoices submitted by hospitals and found the following:

- Based on a review of contracts and a sample of hospital invoices, for one drug product, hospitals had paid and were reimbursed by the Ministry at a higher price than in the contract. At our request, branch staff reviewed all the invoices for that drug for the past five years. As a result, the Branch was in the process of recovering approximately $475,000 from the manufacturer.
- The Branch continued to pay a hospital $465,000 annually for administrative costs related to the distribution of drugs to other hospitals, even though its contract with the hospital had expired in 1996. As well, the Branch did not require the hospital to submit a budget for administrative costs.
- The Branch did not collect sufficient statistical information to monitor the reasonableness of the volume of drugs paid for by the Program. While the price of drugs covered has remained relatively constant, according to the Branch's statistics, total expenditures for some drugs have risen significantly. However, since the Branch did not have adequate information on the

Recommendation

To better ensure that Trillium Drug Program benefits are provided in accordance with the intent of the Program, the Ministry should develop policies and procedures to:

- **reduce or eliminate underpayments of the deductible; and**
- **recover any underpaid deductibles.**

Ministry Response

The Ministry will institute a review of the computerized application of the quarterly deductible and will examine options for reducing or eliminating underpayments of the deductible and options for recovery.

SPECIAL DRUGS PROGRAM

The Special Drugs Program was introduced in 1986 to cover the cost of prescription drugs required for the treatment of specific health conditions, such as HIV and end-stage renal disease. To be eligible for coverage, an individual must be an Ontario resident, have a valid health insurance number, meet the clinical criteria, and have one of the conditions covered by the Program.

At the time of our current audit, there were 11 prescription drugs funded by the Program. Since 1993, new drugs that treat conditions covered under the Special Drugs Program, such as anti-rejection drugs for transplants, are added to the Formulary and are covered by the Ontario Drug Benefit or Trillium Drug programs. For the 2000/01 fiscal year, the Ministry's expenditures for the Special Drugs Program totalled $107 million.

Regulations under the *Ontario Health Insurance Act* provide the funding authority for special drugs and their corresponding conditions. Unlike the Ontario Drug Benefit and Trillium Drug programs, the Special Drugs Program does not require the payment of a deductible or co-payment for drugs provided. Instead, patients obtain these drugs free of charge on an outpatient basis from an authorized facility—usually a hospital—that the Ministry has designated to distribute the drugs.

In our *1996 Annual Report*, we recommended that the Ministry consider whether the Special Drugs Program was needed in its current form, given that the Trillium Drug Program covers people with high drug costs relative to their incomes, and, if it was needed, determine whether it was consistent with the Ontario Drug Benefit Program's objective of providing equitable protection. At that time, the Ministry agreed that consideration should be given to the consistency of the application of the objective of equitable protection. It also indicated that it would be reviewing the three programs to consider the possibility of redesigning their various components to ensure consistency and compatibility.

In January 1999, the Branch engaged a consultant to develop a plan to include the Special Drugs Program on the Health Network System. Initially, two drugs representing 67% of the expenditures of the Special Drugs Program were to be added to the Health Network System, and reimbursement would be managed in a way that was similar to that of the Ontario Drug

F5

Benefit and Trillium Drug programs. The consultant noted that this would enable the Branch to ascertain:

- the names of the prescriber, the recipient, and the authorizing hospital; and
- the name of the pharmacist who assesses the recipient's eligibility by confirming the recipient is an outpatient who is an Ontario resident, has a valid OHIP number, and has a medical condition that is covered by the Program.

This information would enable the Branch to check for potential drug interactions and duplicate prescriptions, as well as monitor drug use and trends. To date, no action has been taken with respect to the consultant's report.

Recommendation

The Ministry should consider whether the Special Drugs Program is needed in its current form and whether the administration of the Program could be integrated with the Ontario Drug Benefit and Trillium Drug programs.

Ministry Response

The Ministry will continue to review the Special Drugs Program and make recommendations to government on future action, as deemed appropriate.

Payment Processing

Hospitals that distribute drugs covered by the Special Drugs Program obtain these drugs directly from the manufacturer. The cost of the drugs is often determined through contracts between the Ministry, the hospital, and the manufacturer. Hospitals forward the invoices they have paid to the Branch for reimbursement. We reviewed the procedures used by the Branch to pay invoices submitted by hospitals and found the following:

- Based on a review of contracts and a sample of hospital invoices, for one drug product, hospitals had paid and were reimbursed by the Ministry at a higher price than in the contract. At our request, branch staff reviewed all the invoices for that drug for the past five years. As a result, the Branch was in the process of recovering approximately $475,000 from the manufacturer.
- The Branch continued to pay a hospital $465,000 annually for administrative costs related to the distribution of drugs to other hospitals, even though its contract with the hospital had expired in 1996. As well, the Branch did not require the hospital to submit a budget for administrative costs.
- The Branch did not collect sufficient statistical information to monitor the reasonableness of the volume of drugs paid for by the Program. While the price of drugs covered has remained relatively constant, according to the Branch's statistics, total expenditures for some drugs have risen significantly. However, since the Branch did not have adequate information on the

number of patients receiving the drugs, it could not assess whether such increases were reasonable.

Recommendation

To help ensure that payments from the Special Drugs Program are reasonable, the Ministry should:

- **establish procedures to compare invoiced amounts to prices in contracts between hospitals and manufacturers;**
- **ensure any administrative costs being paid to a hospital are justified; and**
- **monitor the volume of drugs paid for by the Program.**

Ministry Response

All invoices for payment of drugs under the Special Drugs Program must contain the price per unit, and this is compared to the prices agreed to in the relevant contract. The contract prices are being enforced.

The Ministry's review of the Special Drugs Program will include a review of administrative and accountability procedures.

Recoveries from the manufacturer are being made and will be completed by March 31, 2002.

PERFORMANCE MEASUREMENT AND REPORTING

The mission of the Drug Programs Branch is: "to provide leadership in achieving optimal pharmaceutical services for the protection and improvement of the health status of the residents of Ontario." To achieve its mission, the Branch has identified several objectives, including:

- achieving equitable protection for Ontarians from unaffordable prescription drug costs; and
- containing costs with suitable controls to keep Ontario's prescription drug programs affordable.

The Branch has developed performance measures for some of its objectives. For example, the Branch had developed workload targets and standards for processing Trillium Drug Program applications and receipts. During our audit, however, we found that the Branch had not developed a complete set of measures for its activities, and no report was available for senior ministry management to enable them to assess how well the Branch was meeting its objectives.

Effective accountability requires that the public and the Legislature receive adequate and timely information about the performance of a program. Our review of the Ministry's 2001/02 published Business Plan found that it provided no financial information or measures of performance for the drug benefit programs, which are very large and fast-growing health programs. For example, information on the results of drug program initiatives to manage costs were not available. We noted that some jurisdictions were attempting to measure the performance of their drug programs and were making annual reports available to the public and other interested stakeholders.

Recommendation

To provide better accountability to the public and the Legislature, the Ministry should develop a comprehensive set of performance measures and report regularly and publicly on the performance of the drug benefit programs.

Ministry Response

Information will be released annually on drug program activities and a report on 2000/01 activities will be posted on the Ministry's Web site in the near future.

The Ministry will consider additional performance measures for the program.

number of patients receiving the drugs, it could not assess whether such increases were reasonable.

Recommendation

To help ensure that payments from the Special Drugs Program are reasonable, the Ministry should:

- **establish procedures to compare invoiced amounts to prices in contracts between hospitals and manufacturers;**
- **ensure any administrative costs being paid to a hospital are justified; and**
- **monitor the volume of drugs paid for by the Program.**

Ministry Response

All invoices for payment of drugs under the Special Drugs Program must contain the price per unit, and this is compared to the prices agreed to in the relevant contract. The contract prices are being enforced.

The Ministry's review of the Special Drugs Program will include a review of administrative and accountability procedures.

Recoveries from the manufacturer are being made and will be completed by March 31, 2002.

PERFORMANCE MEASUREMENT AND REPORTING

The mission of the Drug Programs Branch is: "to provide leadership in achieving optimal pharmaceutical services for the protection and improvement of the health status of the residents of Ontario." To achieve its mission, the Branch has identified several objectives, including:

- achieving equitable protection for Ontarians from unaffordable prescription drug costs; and
- containing costs with suitable controls to keep Ontario's prescription drug programs affordable.

The Branch has developed performance measures for some of its objectives. For example, the Branch had developed workload targets and standards for processing Trillium Drug Program applications and receipts. During our audit, however, we found that the Branch had not developed a complete set of measures for its activities, and no report was available for senior ministry management to enable them to assess how well the Branch was meeting its objectives.

Effective accountability requires that the public and the Legislature receive adequate and timely information about the performance of a program. Our review of the Ministry's 2001/02 published Business Plan found that it provided no financial information or measures of performance for the drug benefit programs, which are very large and fast-growing health programs. For example, information on the results of drug program initiatives to manage costs were not available. We noted that some jurisdictions were attempting to measure the performance of their drug programs and were making annual reports available to the public and other interested stakeholders.

Recommendation

To provide better accountability to the public and the Legislature, the Ministry should develop a comprehensive set of performance measures and report regularly and publicly on the performance of the drug benefit programs.

Ministry Response

Information will be released annually on drug program activities and a report on 2000/01 activities will be posted on the Ministry's Web site in the near future.

The Ministry will consider additional performance measures for the program.

MINISTRY OF HEALTH AND LONG-TERM CARE

3.10–Assistive Devices and Home Oxygen Programs

BACKGROUND

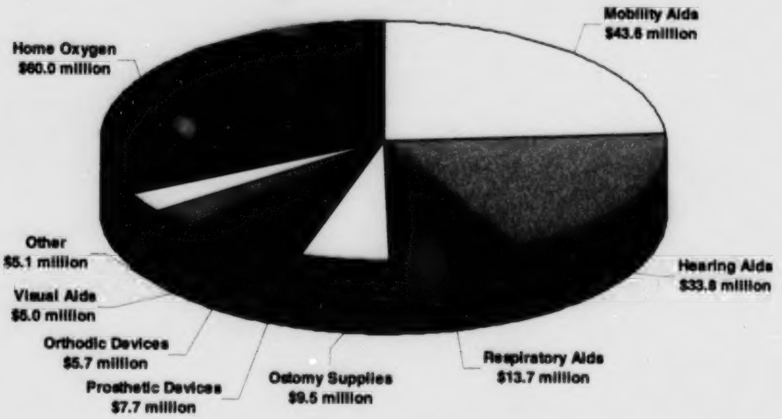
The Assistive Devices Program and the Home Oxygen Program are administered by the Operational Support Branch (Branch) of the Ministry of Health and Long-Term Care. According to the Ministry, the objective of both programs is to "financially assist Ontario residents with long-term disabilities to obtain basic, competitively priced, personalized assistive devices appropriate for the individual's needs and essential for independent living." Both programs are funded under the *Ministry of Health Act*. Devices covered by the programs "are intended to give people increased independence and control over their lives. They may allow them to avoid costly institutional settings and remain in a community living arrangement."

Currently, the Assistive Devices Program provides funding for equipment and supplies for eligible individuals in 11 device categories. The Program pays up to 75% of the cost of equipment such as artificial limbs, orthopedic braces, wheelchairs, breast prostheses, and breathing aids. For hearing aids, it contributes a fixed amount. The Program also provides annual grants directly to individuals for ostomy supplies and to insulin-dependent seniors for certain supplies.

The Home Oxygen Program pays 100% of the cost of oxygen and related equipment for seniors as well as for individuals on social assistance, receiving home care, or residing in a long-term care facility. For all other eligible individuals, the Program pays 75% of the cost.

During the 2000/01 fiscal year, the Ministry provided financial assistance totalling approximately $184 million to 176,000 individuals. In addition, the Ministry provided approximately $8 million to transfer-payment agencies for services relating to assistive devices.

Assistive Devices and Home Oxygen Programs Expenditures, 2000/01



Source: Ministry of Health and Long-Term Care

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Assistive Devices and Home Oxygen programs were to assess whether the Ministry had adequate policies and procedures in place to:

- ensure that resources were managed with due regard for economy and efficiency;
- ensure that claims were properly approved, processed, and paid; and
- measure and report on the effectiveness of these programs.

Our audit was performed in accordance with standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our work, we identified the audit criteria that would be used to address our audit objectives. These criteria were reviewed and agreed to by senior ministry management.

In conducting our audit, which was substantially completed by March 2001, we interviewed staff and reviewed the operation of the Operational Support Branch in Toronto as well as related operations at the Supply and Financial Services Branch in Kingston. We also obtained information on comparable programs in other jurisdictions.

The work of the Ministry's Internal Audit Services did not affect the extent of our audit work because it had not issued any recent reports on the Assistive Devices or Home Oxygen programs.

OVERALL AUDIT CONCLUSIONS

The Ministry needed to better ensure that resources were managed with due regard for economy and efficiency. Specifically, the Ministry did not have adequate procedures to ensure that it was paying the best prices. In particular, we noted that:

- The Ministry had still not fully met its 1996 commitment to determine whether assessments by independent health-care professionals rather than individuals employed by oxygen vendors were cost effective for the Home Oxygen Program. Ministry-initiated independent research indicated that 41% of approved renewals for home oxygen "met no criteria for home oxygen" and that "it would appear that substantial savings could accrue from the implementation of a standardized, independent assessment of those applying for home oxygen." If independent testing confirms these research results, the Ministry could save over $5 million annually by reducing by one-half the number of renewals that do not meet the criteria that were in place during the study.
- While the Ministry had recently negotiated a 10% reduction in the price paid for home oxygen, the Ministry could save in the order of $3 million to $5 million in the 2001/02 fiscal year if home oxygen vendors in Ontario were paid the same price for oxygen as vendors were paid in Alberta.
- The Ministry had not ensured that it was paying competitive prices for devices funded under the Assistive Devices Program. For three commonly purchased wheelchairs, the Ministry would have saved approximately $1.9 million annually if it had paid the same price as Quebec.
- The effectiveness of the verification letter process used to detect incorrect and false billings had significantly deteriorated since our 1996 audit.
- The Ministry was not adequately ensuring that transfer-payment agencies funded by the Assistive Devices Program were providing services economically and efficiently.

The Ministry generally had adequate procedures in place to ensure that claims were properly approved, processed, and paid. However, we noted that the Ministry did not have adequate procedures in place to identify and recover any payments made on behalf of individuals who were deceased.

The Ministry needed to improve its procedures for measuring and reporting on the effectiveness of the Assistive Devices and Home Oxygen programs by:

- ensuring that its information systems provide accurate and timely reports on all key performance measures; and
- reinstating the standing committees that provide technical advice to the Branch for all major assistive device categories.

DETAILED AUDIT OBSERVATIONS

MANAGEMENT OF RESOURCES

Home Oxygen Program—Eligibility

During the 2000/01 fiscal year, the Home Oxygen Program provided financial assistance to over 21,000 home oxygen users. To be eligible for financial assistance, an individual must have a chronic illness that requires long-term oxygen therapy. For continued coverage, an individual must reapply annually.

OXIMETRY TESTS

First-time applicants over the age of 18 are required to have an arterial blood gas test to determine eligibility for funding. Children and renewal clients can submit results of an oximetry test, which is less accurate than a blood gas test. At least two other provinces that fund home oxygen programs accept only oximetry tests done by regional health authority employees and, in some cases, home care nurses, both of whom are independent of the vendors. In one province, blood gas tests were required for first-time applicants and renewals. Oximetry test results were accepted only in exceptional circumstances.

Branch staff advised us that first-time applicants typically are individuals that have been recently released from a hospital after an acute illness and have unstable breathing patterns. Although their condition may stabilize in a few months, and their breathing may improve, retesting is not done until after one year. At least three other provinces retest oxygen recipients after three or four months. Two of these provinces do not require testing to renew funding if the individual was stable when last tested and clearly met the criteria for funding. In that regard, we noted that in January 2001, the Medical Criteria Task Force recommended that the Home Oxygen Program should require an arterial blood gas test for all new program applicants at three months in order to prevent the inappropriate use of long-term oxygen therapy. We understand that further work is being undertaken to assess the impact of this recommendation.

In our *1996 Annual Report*, we noted that, in Ontario, oximetry tests are usually performed by individuals employed by home oxygen vendors. We recommended that, to ensure home oxygen is provided only to eligible individuals, the Ministry implement guidelines for conducting independent medical tests to determine eligibility. In response, the Ministry stated that, by the fall of 1996, it expected draft guidelines to be in place and that it would be conducting pilot projects to determine whether assessments by independent health-care professionals were cost effective. In its 1996/97 Annual Report, the Standing Committee on Public Accounts recommended that it be provided with the results of these pilot projects.

In 1997, medical researchers were engaged by the Ministry to determine the proportion of people already receiving home oxygen who met the eligibility criteria of the Home Oxygen Program by independently assessing their oxygen requirements. The Branch's current medical criteria are based on the oxygen needs of a person at rest, not at the time of exertion or sleep. However, exceptions are permitted. For example, individuals may receive funding if they can demonstrate improved endurance during exercise with the use of oxygen or a significant need for oxygen during sleep. However, the Branch did not have clear criteria, guidelines, or

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

definitions to address these situations. We noted that at least four other Canadian provinces have developed clear criteria for funding home oxygen needed during exercise or sleep.

The researchers assessed the oxygen needs of a sample of individuals who had been receiving home oxygen for more than 12 months and, in 1998, reported that 41% "met no criteria for home oxygen." The report also stated "it would appear that substantial savings could accrue from the implementation of a standardized independent assessment of those applying for home oxygen." If independent testing confirms these research results, the Ministry could save over $5 million annually by reducing by one-half the number of renewals that do not meet the criteria that were in place during the study.

In March 2000, the Branch provided funding to the medical researchers for the purpose of conducting a trial program whereby a sample of oximetry tests performed by individuals employed by oxygen vendors are to be re-performed by individuals independent of the vendors. This trial is to be completed by December 2002. In the meantime, six years will have elapsed since we first raised this issue, and four years will have elapsed since medical researchers confirmed that there was a serious problem.

Recommendation

To help ensure that funding for home oxygen is provided only to individuals who meet the Ministry's eligibility criteria, the Ministry should:

- **assess whether blood gas tests should be used rather than oximetry tests;**
- **assess whether to retest home oxygen recipients earlier than a year from the time an individual begins receiving home oxygen; and**
- **establish clear criteria, guidelines, or definitions to address situations where individuals are experiencing low oxygen levels during exercise or sleep.**

Ministry Response

Whether to use arterial blood gas tests or oximetry was considered by program staff in consultation with the Medical Criteria Task Force in 1995. The task force, re-established in May 2000, began a re-evaluation of this issue. The Home Oxygen Program will consider the task force's recommendations along with relevant factors, such as availability, applicability, invasiveness, and health-system impacts.

The 1998 pilot study did suggest that there may be savings if an alternative assessment model to the one currently in place was used. However, the potential savings are unclear as the study also indicated that it was unknown whether applying this methodology would result in higher utilization of physician services, emergency visits, or hospital admissions. The Program expects to receive recommendations on earlier retesting from its advisory committees in fall 2001 and will reassess its current practice at that time.

The Medical Criteria Task Force is assessing criteria for individuals experiencing low oxygen levels during exercise or sleep. The Program will

then determine whether implementing general criteria is a better approach than the current method of individual clinical review of these cases.

Ostomy Grants

Individuals with permanent ostomies (surgical openings required when a person has lost normal bladder or bowel function) are eligible to receive grants from the Assistive Devices Program for the purchase of related supplies. Since 1993, individuals have been eligible to receive $600 per year for each ostomy, up to a maximum of three ostomies. Residents of long-term care facilities or individuals receiving social assistance are eligible for $800 per ostomy.

Prior to 1993, the Program paid 75% of the cost of ostomy supplies. According to branch staff, individuals who were receiving a higher level of funding prior to 1993 were allowed to continue receiving the additional funding indefinitely if need could be demonstrated. Persons who became eligible for funding after 1993 cannot obtain more funding than the stated maximum.

In the 1999/2000 fiscal year, 181 pre-1993 recipients received grants totalling $190,000 more than if the maximum limits had been applied. Of those, 13 people were receiving more than $2,500 per ostomy annually, and one person was receiving $7,830 for one ostomy.

The Branch informed us that a medical specialist had been hired in 1995 to conduct needs assessments for pre-1993 individuals who stated that they required the additional funding. However, the Branch could not provide us with any documentation to indicate the results of the 1995 assessments.

Recommendation

To ensure that payments for ostomy supplies over the maximum amount are warranted, the Ministry should, at a minimum, assess the current needs of individuals receiving significantly more funding than the current maximum grants.

Ministry Response

Typically, ostomy patients' needs do not decline over the years, and ostomy supplies have not reduced in price. One would not expect significant changes in these individuals' requirements since their earlier assessments. Nevertheless, staff will reassess current ostomy product requirements for those individuals receiving significantly higher grants.

Replacement Devices

The Branch has established replacement periods for all devices, based on an estimate of the useful life of the device. Certain devices may be replaced earlier if the user of the device experiences a change in medical condition, growth, or atrophy that prevents the individual from effectively using the device. The reasons for early replacement must be documented.

definitions to address these situations. We noted that at least four other Canadian provinces have developed clear criteria for funding home oxygen needed during exercise or sleep.

The researchers assessed the oxygen needs of a sample of individuals who had been receiving home oxygen for more than 12 months and, in 1998, reported that 41% "met no criteria for home oxygen." The report also stated "it would appear that substantial savings could accrue from the implementation of a standardized independent assessment of those applying for home oxygen." If independent testing confirms these research results, the Ministry could save over $5 million annually by reducing by one-half the number of renewals that do not meet the criteria that were in place during the study.

In March 2000, the Branch provided funding to the medical researchers for the purpose of conducting a trial program whereby a sample of oximetry tests performed by individuals employed by oxygen vendors are to be re-performed by individuals independent of the vendors. This trial is to be completed by December 2002. In the meantime, six years will have elapsed since we first raised this issue, and four years will have elapsed since medical researchers confirmed that there was a serious problem.

Recommendation

To help ensure that funding for home oxygen is provided only to individuals who meet the Ministry's eligibility criteria, the Ministry should:

- **assess whether blood gas tests should be used rather than oximetry tests;**
- **assess whether to retest home oxygen recipients earlier than a year from the time an individual begins receiving home oxygen; and**
- **establish clear criteria, guidelines, or definitions to address situations where individuals are experiencing low oxygen levels during exercise or sleep.**

Ministry Response

Whether to use arterial blood gas tests or oximetry was considered by program staff in consultation with the Medical Criteria Task Force in 1995. The task force, re-established in May 2000, began a re-evaluation of this issue. The Home Oxygen Program will consider the task force's recommendations along with relevant factors, such as availability, applicability, invasiveness, and health-system impacts.

The 1998 pilot study did suggest that there may be savings if an alternative assessment model to the one currently in place was used. However, the potential savings are unclear as the study also indicated that it was unknown whether applying this methodology would result in higher utilization of physician services, emergency visits, or hospital admissions. The Program expects to receive recommendations on earlier retesting from its advisory committees in fall 2001 and will reassess its current practice at that time.

The Medical Criteria Task Force is assessing criteria for individuals experiencing low oxygen levels during exercise or sleep. The Program will

then determine whether implementing general criteria is a better approach than the current method of individual clinical review of these cases.

Ostomy Grants

Individuals with permanent ostomies (surgical openings required when a person has lost normal bladder or bowel function) are eligible to receive grants from the Assistive Devices Program for the purchase of related supplies. Since 1993, individuals have been eligible to receive $600 per year for each ostomy, up to a maximum of three ostomies. Residents of long-term care facilities or individuals receiving social assistance are eligible for $800 per ostomy.

Prior to 1993, the Program paid 75% of the cost of ostomy supplies. According to branch staff, individuals who were receiving a higher level of funding prior to 1993 were allowed to continue receiving the additional funding indefinitely if need could be demonstrated. Persons who became eligible for funding after 1993 cannot obtain more funding than the stated maximum.

In the 1999/2000 fiscal year, 181 pre-1993 recipients received grants totalling $190,000 more than if the maximum limits had been applied. Of those, 13 people were receiving more than $2,500 per ostomy annually, and one person was receiving $7,830 for one ostomy.

The Branch informed us that a medical specialist had been hired in 1995 to conduct needs assessments for pre-1993 individuals who stated that they required the additional funding. However, the Branch could not provide us with any documentation to indicate the results of the 1995 assessments.

Recommendation

To ensure that payments for ostomy supplies over the maximum amount are warranted, the Ministry should, at a minimum, assess the current needs of individuals receiving significantly more funding than the current maximum grants.

Ministry Response

Typically, ostomy patients' needs do not decline over the years, and ostomy supplies have not reduced in price. One would not expect significant changes in these individuals' requirements since their earlier assessments. Nevertheless, staff will reassess current ostomy product requirements for those individuals receiving significantly higher grants.

Replacement Devices

The Branch has established replacement periods for all devices, based on an estimate of the useful life of the device. Certain devices may be replaced earlier if the user of the device experiences a change in medical condition, growth, or atrophy that prevents the individual from effectively using the device. The reasons for early replacement must be documented.

At our request, the Branch compiled information for the 2000/01 fiscal year on the replacement of a sample of devices from four major categories (hearing aids, mobility aids, respiratory devices, and prostheses). The results indicated that, on average, over half of the devices were replaced earlier than their established replacement periods.

Recommendation

To better ensure that devices are only replaced when justified, the Ministry should review the reasonableness of its established replacement periods, particularly for those devices that are often being replaced early.

Ministry Response

The Ministry will review established replacement periods for devices. The Ministry is establishing four standing committees that will be operating by the fall of 2001. A component of their mandate will be to provide advice to the Assistive Devices Program regarding the appropriateness of the current replacement periods for devices.

Computer Purchases

The Assistive Devices Program provides funding for the purchase of computer equipment to be used as communication aids or aids for the visually impaired. While there is no requirement to purchase from a vendor registered with the Program, only devices approved by the Program are eligible for funding, and the purchase price is not to exceed pre-established approved amounts.

We reviewed the supporting documentation for a representative sample of reimbursements for computer purchases and related supplies. We noted that it was difficult to determine whether individuals had received the prescribed devices because invoices from unregistered vendors typically did not include a detailed description of the items sold. We also noted that:

- Twenty percent of invoices reimbursed by the Program included devices that were not approved for funding (for example, a compact disc writer and fax machine).
- The total funding approved for each application was set too high in 80% of the cases we reviewed. Every application includes a detailed list of prescribed equipment and accessories, each of which has an individual maximum price. One would have expected that the total approved funding would not exceed the sum of individual maximum prices. However, in most cases, the total approved amount was higher than necessary. As a result, 30% of payments exceeded the sum of the individual maximum prices without being detected by the Branch.

Although individuals requesting funding must submit, at a minimum, a price quotation from an equipment pool funded by the Ministry, only 10% of the purchases we reviewed included that quotation. There were no other quotations provided for the other 90%.

Recommendation

To help ensure that the Assistive Devices Program is paying competitive prices for computer equipment, the Ministry should:

- **pay only for approved devices;**
- **review the approved amount and pay only what is necessary; and**
- **ensure clients provide, at a minimum, one price quotation from the ministry-funded equipment pool or another supplier.**

Ministry Response

Procedures for processing invoices now include checking the computer system for the approved claim, individual eligible items, codes, and maximum amounts before payment is made. Where there are discrepancies, invoices are placed on hold and program staff sends them back to vendors for correction.

Training will be implemented on existing program policies for approving invoices for payment to ensure that these procedures are understood by staff and are followed consistently.

Where competitive prices have not been provided by clients, senior management of the program will institute other methods to ensure that the Assistive Devices program prices reflect current market values.

Approval of Devices for Coverage

The Branch provides financial assistance only for the purchase of devices listed in the Assistive Devices program catalogue. However, documented procedures for including new devices in the catalogue existed only for some categories of devices—for example, wheelchairs and hearing aids. In 2000, a consultant hired by the Branch to conduct an operational review recommended introducing a consistent and well-communicated policy for adding and deleting products in the catalogue.

Although the Branch had no documented policies or procedures for including in the catalogue categories of devices such as respiratory aids, prostheses, or orthotics, branch staff explained that devices in those categories were also scrutinized before inclusion, although the process was not formalized.

We selected a sample of hearing aids, wheelchairs, and respiratory devices added to the catalogue during the 1999/2000 and 2000/01 fiscal years. All the devices we reviewed had undergone an evaluation process.

Recommendation

To help ensure that only appropriate devices are funded under the Assistive Devices Program, the Ministry should document procedures for the inclusion of all new devices in each category in the Program's catalogue.

At our request, the Branch compiled information for the 2000/01 fiscal year on the replacement of a sample of devices from four major categories (hearing aids, mobility aids, respiratory devices, and prostheses). The results indicated that, on average, over half of the devices were replaced earlier than their established replacement periods.

Recommendation

To better ensure that devices are only replaced when justified, the Ministry should review the reasonableness of its established replacement periods, particularly for those devices that are often being replaced early.

Ministry Response

The Ministry will review established replacement periods for devices. The Ministry is establishing four standing committees that will be operating by the fall of 2001. A component of their mandate will be to provide advice to the Assistive Devices Program regarding the appropriateness of the current replacement periods for devices.

Computer Purchases

The Assistive Devices Program provides funding for the purchase of computer equipment to be used as communication aids or aids for the visually impaired. While there is no requirement to purchase from a vendor registered with the Program, only devices approved by the Program are eligible for funding, and the purchase price is not to exceed pre-established approved amounts.

We reviewed the supporting documentation for a representative sample of reimbursements for computer purchases and related supplies. We noted that it was difficult to determine whether individuals had received the prescribed devices because invoices from unregistered vendors typically did not include a detailed description of the items sold. We also noted that:

- Twenty percent of invoices reimbursed by the Program included devices that were not approved for funding (for example, a compact disc writer and fax machine).
- The total funding approved for each application was set too high in 80% of the cases we reviewed. Every application includes a detailed list of prescribed equipment and accessories, each of which has an individual maximum price. One would have expected that the total approved funding would not exceed the sum of individual maximum prices. However, in most cases, the total approved amount was higher than necessary. As a result, 30% of payments exceeded the sum of the individual maximum prices without being detected by the Branch.

Although individuals requesting funding must submit, at a minimum, a price quotation from an equipment pool funded by the Ministry, only 10% of the purchases we reviewed included that quotation. There were no other quotations provided for the other 90%.

Recommendation

To help ensure that the Assistive Devices Program is paying competitive prices for computer equipment, the Ministry should:

- **pay only for approved devices;**
- **review the approved amount and pay only what is necessary; and**
- **ensure clients provide, at a minimum, one price quotation from the ministry-funded equipment pool or another supplier.**

Ministry Response

Procedures for processing invoices now include checking the computer system for the approved claim, individual eligible items, codes, and maximum amounts before payment is made. Where there are discrepancies, invoices are placed on hold and program staff sends them back to vendors for correction.

Training will be implemented on existing program policies for approving invoices for payment to ensure that these procedures are understood by staff and are followed consistently.

Where competitive prices have not been provided by clients, senior management of the program will institute other methods to ensure that the Assistive Devices program prices reflect current market values.

Approval of Devices for Coverage

The Branch provides financial assistance only for the purchase of devices listed in the Assistive Devices program catalogue. However, documented procedures for including new devices in the catalogue existed only for some categories of devices—for example, wheelchairs and hearing aids. In 2000, a consultant hired by the Branch to conduct an operational review recommended introducing a consistent and well-communicated policy for adding and deleting products in the catalogue.

Although the Branch had no documented policies or procedures for including in the catalogue categories of devices such as respiratory aids, prostheses, or orthotics, branch staff explained that devices in those categories were also scrutinized before inclusion, although the process was not formalized.

We selected a sample of hearing aids, wheelchairs, and respiratory devices added to the catalogue during the 1999/2000 and 2000/01 fiscal years. All the devices we reviewed had undergone an evaluation process.

Recommendation

To help ensure that only appropriate devices are funded under the Assistive Devices Program, the Ministry should document procedures for the inclusion of all new devices in each category in the Program's catalogue.

Ministry Response

The Assistive Devices Program has now updated and documented procedures for adding and removing devices from the catalogue in all categories. The Assistive Devices Program is in the final stages of receiving approval for these procedures, which are to be implemented in the fall of 2001.

Pricing

HOME OXYGEN PROGRAM

There are three methods of providing home oxygen to individuals: liquid oxygen; concentrators; and cylinders. In general, liquid oxygen is a more expensive method of oxygen delivery than concentrators. In our 1996 report we recommended to the Ministry that it should reduce home oxygen expenditures by reviewing the costs related to oxygen concentrators and liquid oxygen and consider more cost-effective alternatives before paying the liquid oxygen rate. At that time the Ministry was paying $526 a month per person for liquid oxygen and $347 for concentrators. The Ministry responded that it would initiate a review of the rates in preparation for the renegotiation of the pricing agreement due to expire March 31, 1998.

However, subsequent to our audit, the Ministry renegotiated the contract, which resulted in a single rate for liquid oxygen and concentrators of $425 per month per person, with a $25 premium to northern suppliers. This rate came into effect on April 1, 1997 and was in place until February 2001.

In its 1996/97 Annual Report, the Standing Committee on Public Accounts recommended that "the Committee should be provided with the results of the independent audit of home oxygen costs and prices as soon as they become available." In 1998, the Ministry hired an independent consulting firm to review the costs incurred by Ontario vendors for providing oxygen and related services and supplies. The consulting firm's report, which was completed in September 1998, stated that "Ontario home oxygen vendors generate returns on average that significantly exceed general benchmarks from other jurisdictions."

The Ministry has negotiated a new three-year contract for home oxygen effective February 2001. This agreement was approved by the Management Board of Cabinet in December 2000. We were pleased to note that the 2001/02 rate paid for home oxygen represents approximately a 10% reduction from the previous rate. The new rate for the 2001/02 fiscal year is $383 per month per person, with a $25 premium for northern suppliers. For the subsequent two years, the rate paid by the Ministry will be dependent on whether agreed-to utilization targets are reached. The Ministry's target is to reduce annual expenditures for home oxygen from the current level of $60 million to $54.6 million.

In reviewing the rates paid by other provinces, we noted that the only other province that paid a flat monthly rate was Alberta. Alberta's rate was $275 per month with a $25 premium for rural suppliers. We reviewed the Ministry's analysis of Alberta's rate and found that, after making adjustments to improve comparability, Alberta's rate was approximately 10% lower than the new rate negotiated by Ontario. We estimated that a similar price in Ontario would result in additional savings in the order of $3 million to $5 million during the 2001/02 fiscal year.

The consultant's report also noted that the method of oxygen delivery plays a role in the delivery cost. As noted earlier, liquid oxygen is a more expensive method of providing oxygen than concentrators. However, with the introduction of a single rate in 1997, any financial benefit realized from a reduction in the usage of liquid oxygen would not benefit the Ministry. We were advised that, accordingly, the Ministry no longer tracked oxygen use by delivery method.

According to the Ministry, a concentrator currently costs between $1,200 and $1,800 to purchase. As we noted in our 1996 Annual Report, concentrators generally last from five to seven years. While the total revenue that a vendor receives for a concentrator lasting five years is approximately $22,000, the Ministry had not assessed whether it was paying a reasonable amount, taking other service-related costs into account.

Recommendation

To better ensure that the prices it is paying for home oxygen are reasonable, the Ministry should:

- **consider tendering for home oxygen on a test basis in larger urban centres;**
- **closely monitor oxygen prices being paid by other provinces to ensure Ontario's higher volumes are reflected in the comparative rates being paid; and**
- **determine whether paying a single flat rate is more economical than negotiating different rates for liquid oxygen and concentrators.**

Ministry Response

As a result of the new contract, the Ministry will have reduced expenditures on home oxygen by approximately 35% over the last decade.

Options around tendering were considered on a number of occasions since the 1996 audit of the Home Oxygen Program. In the spring of 2000, a policy decision was made to proceed with negotiations with the home oxygen vendors rather than tendering, and the Management Board of Cabinet approved the current negotiated agreement. The Ministry believes the agreement with home oxygen vendors achieves the best balance of quality, service, and price. The Ministry will assess the viability of tendering in larger urban centres prior to the termination of the current agreement.

The Ministry believes the current agreement reduces the home oxygen rate to a level that is consistent with other provincial jurisdictions' reimbursements for home oxygen services, given that the Ontario rate provides for client assessment by professionals, case management, set-up costs, and necessary supplies. The Ministry will continue to monitor rates being paid by other provinces and ensure this information is utilized in negotiating and/or tendering future oxygen contracts.

In the past, the Ministry had in place a differential pricing structure for liquid oxygen versus concentrators. The Ministry adopted a single, lower price for

Ministry Response

The Assistive Devices Program has now updated and documented procedures for adding and removing devices from the catalogue in all categories. The Assistive Devices Program is in the final stages of receiving approval for these procedures, which are to be implemented in the fall of 2001.

Pricing

HOME OXYGEN PROGRAM

There are three methods of providing home oxygen to individuals: liquid oxygen; concentrators; and cylinders. In general, liquid oxygen is a more expensive method of oxygen delivery than concentrators. In our 1996 report we recommended to the Ministry that it should reduce home oxygen expenditures by reviewing the costs related to oxygen concentrators and liquid oxygen and consider more cost-effective alternatives before paying the liquid oxygen rate. At that time the Ministry was paying $526 a month per person for liquid oxygen and $347 for concentrators. The Ministry responded that it would initiate a review of the rates in preparation for the renegotiation of the pricing agreement due to expire March 31, 1998.

However, subsequent to our audit, the Ministry renegotiated the contract, which resulted in a single rate for liquid oxygen and concentrators of $425 per month per person, with a $25 premium to northern suppliers. This rate came into effect on April 1, 1997 and was in place until February 2001.

In its 1996/97 Annual Report, the Standing Committee on Public Accounts recommended that "the Committee should be provided with the results of the independent audit of home oxygen costs and prices as soon as they become available." In 1998, the Ministry hired an independent consulting firm to review the costs incurred by Ontario vendors for providing oxygen and related services and supplies. The consulting firm's report, which was completed in September 1998, stated that "Ontario home oxygen vendors generate returns on average that significantly exceed general benchmarks from other jurisdictions."

The Ministry has negotiated a new three-year contract for home oxygen effective February 2001. This agreement was approved by the Management Board of Cabinet in December 2000. We were pleased to note that the 2001/02 rate paid for home oxygen represents approximately a 10% reduction from the previous rate. The new rate for the 2001/02 fiscal year is $383 per month per person, with a $25 premium for northern suppliers. For the subsequent two years, the rate paid by the Ministry will be dependent on whether agreed-to utilization targets are reached. The Ministry's target is to reduce annual expenditures for home oxygen from the current level of $60 million to $54.6 million.

In reviewing the rates paid by other provinces, we noted that the only other province that paid a flat monthly rate was Alberta. Alberta's rate was $275 per month with a $25 premium for rural suppliers. We reviewed the Ministry's analysis of Alberta's rate and found that, after making adjustments to improve comparability, Alberta's rate was approximately 10% lower than the new rate negotiated by Ontario. We estimated that a similar price in Ontario would result in additional savings in the order of $3 million to $5 million during the 2001/02 fiscal year.

The consultant's report also noted that the method of oxygen delivery plays a role in the delivery cost. As noted earlier, liquid oxygen is a more expensive method of providing oxygen than concentrators. However, with the introduction of a single rate in 1997, any financial benefit realized from a reduction in the usage of liquid oxygen would not benefit the Ministry. We were advised that, accordingly, the Ministry no longer tracked oxygen use by delivery method.

According to the Ministry, a concentrator currently costs between $1,200 and $1,800 to purchase. As we noted in our 1996 Annual Report, concentrators generally last from five to seven years. While the total revenue that a vendor receives for a concentrator lasting five years is approximately $22,000, the Ministry had not assessed whether it was paying a reasonable amount, taking other service-related costs into account.

Recommendation

To better ensure that the prices it is paying for home oxygen are reasonable, the Ministry should:

- **consider tendering for home oxygen on a test basis in larger urban centres;**
- **closely monitor oxygen prices being paid by other provinces to ensure Ontario's higher volumes are reflected in the comparative rates being paid; and**
- **determine whether paying a single flat rate is more economical than negotiating different rates for liquid oxygen and concentrators.**

Ministry Response

As a result of the new contract, the Ministry will have reduced expenditures on home oxygen by approximately 35% over the last decade.

Options around tendering were considered on a number of occasions since the 1996 audit of the Home Oxygen Program. In the spring of 2000, a policy decision was made to proceed with negotiations with the home oxygen vendors rather than tendering, and the Management Board of Cabinet approved the current negotiated agreement. The Ministry believes the agreement with home oxygen vendors achieves the best balance of quality, service, and price. The Ministry will assess the viability of tendering in larger urban centres prior to the termination of the current agreement.

The Ministry believes the current agreement reduces the home oxygen rate to a level that is consistent with other provincial jurisdictions' reimbursements for home oxygen services, given that the Ontario rate provides for client assessment by professionals, case management, set-up costs, and necessary supplies. The Ministry will continue to monitor rates being paid by other provinces and ensure this information is utilized in negotiating and/or tendering future oxygen contracts.

In the past, the Ministry had in place a differential pricing structure for liquid oxygen versus concentrators. The Ministry adopted a single, lower price for

both modalities because it felt this would encourage an appropriate split between the provision of liquid oxygen and concentrators. The Ministry is willing to re-examine the issue as the current agreement comes to an end.

ASSISTIVE DEVICES PROGRAM

Ontario is likely the largest volume purchaser of many assistive devices in Canada. As such, it should be able to negotiate extremely competitive prices. However, the Branch does not have a process that ensures that the prices it pays are competitive. At the time of our audit, the approved prices for most assistive devices had been set in 1993 and had not been reviewed since. We understand that the prices were set by grouping similar types of devices and setting one maximum price for the entire group using manufacturers' catalogue prices and applying a mark-up for suppliers.

To determine the reasonableness of prices paid by the Assistive Devices Program, we reviewed a sample of the pricing documents submitted with new devices, obtained comparable prices from other jurisdictions, and obtained published prices for certain devices offered to non-program clients. We noted that the Branch had not determined whether the prices being paid were reasonable and was paying more than current market prices for certain types of devices. For example:

- The Assistive Devices Program is paying 58% to 77% more than Quebec for three types of wheelchairs commonly sold in Ontario to program clients. If Ontario paid the same price as Quebec for those three devices, the Ministry would save approximately $1.9 million annually.
- Twenty-five percent of a sample of new wheelchairs added to the list of approved devices in the last 16 months were assigned maximum prices that exceeded the manufacturers' suggested retail prices by as much as 81%. Almost all vendors selling these devices were charging the Branch the maximum price.
- The most common respiratory devices paid for by the Assistive Devices Program are Continuous Positive Airway Pressure Systems (CPAPs). In the 2000/01 fiscal year, the Program paid over $12.7 million for 10,700 CPAPs. The Program pays 75% of the cost of CPAPs based on a maximum selling price of $1,600, which applies to all models approved by the Program. We were advised that similar devices were being purchased in Alberta for $485 and in Saskatchewan for $480. However, Ontario's price included the cost of a humidifier, mask, and headgear while the prices for other provinces did not. Both Alberta and Saskatchewan obtained their prices for CPAPs through tenders with the manufacturers. The Branch had not determined whether the price it was paying was reasonable compared to prices paid in the other provinces.
- At the time of our audit, we obtained market prices for computer equipment from two manufacturers from their respective Internet Web sites and compared them to maximum Assistive Device program prices. We found that program prices for desktop and laptop computers with printers were approximately $1,000 more than market prices.

Recommendation

To help ensure that it is paying competitive prices for the devices funded under the Assistive Devices Program, the Ministry should:

- **conduct a comprehensive review of the prices listed for all devices covered by the Assistive Devices Program; and**
- **obtain competitive bids from manufacturers or suppliers for devices that are similar in nature.**

Ministry Response

The Assistive Devices Program is developing a new pricing framework to be complete by December 31, 2001. The framework will include procedures to review and update prices across all device categories. The program will target those areas noted in the audit for initial review. Future cost-management strategies will include consideration of introducing new equipment pools and competitive pricing for appropriate devices.

Verification of Claims

One program risk is that claims may be submitted for which no assistive device or oxygen was ever provided. Over the past five years, the proportion of claims submitted by vendors on computer disks rather than on paper invoices increased from 15% to 60%. This factor has increased the risk of paying for devices or services that have not been provided.

In our 1996 Annual Report, we noted that the Branch addressed that risk by routinely verifying claims for all device categories by sending letters to a sample of individuals receiving benefits and to their physicians. These verification letters alerted the Branch to incorrect and false billings, resulting in a number of vendors being successfully prosecuted for fraud.

However, during our current audit, we found that the Branch was sending verification letters only to individuals receiving home oxygen and to the physicians of ostomy grant recipients. The other device categories, which represented approximately 60% of all payments for claims made in the 1999/2000 fiscal year, were excluded from the verification process.

In addition, for claims submitted on computer disks, vendors are required to keep the original signed documentation on file for ministry inspection for seven years. However, branch staff informed us that there had been no inspections of documentation maintained by vendors in the last three years.

Although we found the verification process for ostomy grants to be generally well managed and controlled, we had significant concerns regarding the home oxygen verification process. In particular, we noted that letters sent and responses received were not tracked. Accordingly, the Branch did not know how many letters had been sent or what the response rates were. We also noted that:

- The Branch had performed little or no follow-up on reported discrepancies, recipients who did not respond, or letters that were returned unopened.

both modalities because it felt this would encourage an appropriate split between the provision of liquid oxygen and concentrators. The Ministry is willing to re-examine the issue as the current agreement comes to an end.

ASSISTIVE DEVICES PROGRAM

Ontario is likely the largest volume purchaser of many assistive devices in Canada. As such, it should be able to negotiate extremely competitive prices. However, the Branch does not have a process that ensures that the prices it pays are competitive. At the time of our audit, the approved prices for most assistive devices had been set in 1993 and had not been reviewed since. We understand that the prices were set by grouping similar types of devices and setting one maximum price for the entire group using manufacturers' catalogue prices and applying a mark-up for suppliers.

To determine the reasonableness of prices paid by the Assistive Devices Program, we reviewed a sample of the pricing documents submitted with new devices, obtained comparable prices from other jurisdictions, and obtained published prices for certain devices offered to non-program clients. We noted that the Branch had not determined whether the prices being paid were reasonable and was paying more than current market prices for certain types of devices. For example:

- The Assistive Devices Program is paying 58% to 77% more than Quebec for three types of wheelchairs commonly sold in Ontario to program clients. If Ontario paid the same price as Quebec for those three devices, the Ministry would save approximately $1.9 million annually.
- Twenty-five percent of a sample of new wheelchairs added to the list of approved devices in the last 16 months were assigned maximum prices that exceeded the manufacturers' suggested retail prices by as much as 81%. Almost all vendors selling these devices were charging the Branch the maximum price.
- The most common respiratory devices paid for by the Assistive Devices Program are Continuous Positive Airway Pressure Systems (CPAPs). In the 2000/01 fiscal year, the Program paid over $12.7 million for 10,700 CPAPs. The Program pays 75% of the cost of CPAPs based on a maximum selling price of $1,600, which applies to all models approved by the Program. We were advised that similar devices were being purchased in Alberta for $485 and in Saskatchewan for $480. However, Ontario's price included the cost of a humidifier, mask, and headgear while the prices for other provinces did not. Both Alberta and Saskatchewan obtained their prices for CPAPs through tenders with the manufacturers. The Branch had not determined whether the price it was paying was reasonable compared to prices paid in the other provinces.
- At the time of our audit, we obtained market prices for computer equipment from two manufacturers from their respective Internet Web sites and compared them to maximum Assistive Device program prices. We found that program prices for desktop and laptop computers with printers were approximately $1,000 more than market prices.

Recommendation

To help ensure that it is paying competitive prices for the devices funded under the Assistive Devices Program, the Ministry should:

- **conduct a comprehensive review of the prices listed for all devices covered by the Assistive Devices Program; and**
- **obtain competitive bids from manufacturers or suppliers for devices that are similar in nature.**

Ministry Response

The Assistive Devices Program is developing a new pricing framework to be complete by December 31, 2001. The framework will include procedures to review and update prices across all device categories. The program will target those areas noted in the audit for initial review. Future cost-management strategies will include consideration of introducing new equipment pools and competitive pricing for appropriate devices.

Verification of Claims

One program risk is that claims may be submitted for which no assistive device or oxygen was ever provided. Over the past five years, the proportion of claims submitted by vendors on computer disks rather than on paper invoices increased from 15% to 60%. This factor has increased the risk of paying for devices or services that have not been provided.

In our 1996 Annual Report, we noted that the Branch addressed that risk by routinely verifying claims for all device categories by sending letters to a sample of individuals receiving benefits and to their physicians. These verification letters alerted the Branch to incorrect and false billings, resulting in a number of vendors being successfully prosecuted for fraud.

However, during our current audit, we found that the Branch was sending verification letters only to individuals receiving home oxygen and to the physicians of ostomy grant recipients. The other device categories, which represented approximately 60% of all payments for claims made in the 1999/2000 fiscal year, were excluded from the verification process.

In addition, for claims submitted on computer disks, vendors are required to keep the original signed documentation on file for ministry inspection for seven years. However, branch staff informed us that there had been no inspections of documentation maintained by vendors in the last three years.

Although we found the verification process for ostomy grants to be generally well managed and controlled, we had significant concerns regarding the home oxygen verification process. In particular, we noted that letters sent and responses received were not tracked. Accordingly, the Branch did not know how many letters had been sent or what the response rates were. We also noted that:

- The Branch had performed little or no follow-up on reported discrepancies, recipients who did not respond, or letters that were returned unopened.

- The verification letters did not contain sufficient detail to allow the Branch to determine whether all services and equipment paid for had been actually provided.

Recommendation

To better ensure that individuals have actually received the devices and services paid for under its Assistive Devices and Home Oxygen programs, the Ministry should expand its verification letter process to cover all assistive device categories. The Ministry should also:

- **track verification letters sent and replies received;**
- **follow up on any discrepancies or non-replies on a timely basis; and**
- **ensure that verification letters include sufficient detail to allow the Ministry to determine whether vendors are providing all the services and equipment required under their contracts.**

For claims submitted on computer disks, the Ministry should periodically inspect signed invoices maintained by the vendors.

Ministry Response

Although the Assistive Devices and Home Oxygen programs have verification policies and procedures in place and have historically routinely audited all device categories through verification letters, recent staffing shortages have forced the program to focus on a few categories. With new staff on board, the Co-ordinator, Audit and Quality Assurance has, over the past few months, re-established the verification and tracking processes that were on hold. The Assistive Devices and Home Oxygen programs are currently establishing performance objectives that include monthly and annual letter-verification targets. The performance objectives will include a regular schedule of site visits with some of the larger vendors. Regular reports are now being provided to management, identifying cases referred to the Ministry's Fraud Program, the number of recoveries anticipated, and recoveries actually received.

Accountability of Transfer-payment Agencies

The Assistive Devices Program annually provides funding totalling approximately $8 million to various transfer-payment agencies. These include:

- the Canadian Diabetes Association for the purchase and distribution of blood-glucose monitors and testing strips;
- four centralized equipment pools to purchase certain high-cost devices to lease to individuals that need those devices; and
- seven augmentative communication centres (ACCs) that assess the needs of individuals for communication aids.

Based on the contracts we reviewed, all agencies were required to submit:

- an annual budget three months prior to the beginning of the fiscal year;
- an annual statement of actual revenues and expenditures three months after year-end, or every six months for ACCs; and
- progress reports on the outcomes expected by the agency every six months.

Overall, the Branch was not receiving information that was sufficient, appropriate, or timely enough to allow it to make informed funding decisions. Specifically, we found that:

- For the 1999/2000 fiscal year, only one agency had submitted a budget by the required deadline; six others were late, and five agencies never submitted a budget. The Branch took an average of eight months to review and approve the budgets that had been submitted.
- Funding for ACCs was historically based and has remained unchanged since 1991. We found no evidence to indicate that funding was prioritized or allocated based on outcomes or the efficient and effective use of resources. Comparing the costs of agencies providing similar services can assist in detecting funding inequities and in identifying whether services are being provided economically and efficiently. For example, we analyzed the funding provided to ACCs on the basis of the number of individuals assessed annually, and found that, during the 1999/2000 fiscal year, the costs to provide services ranged from $600 per client to $2,300 per client.
- None of the ACCs met their reporting requirements for the 1999/2000 fiscal year or for the first half of the 2000/01 fiscal year. Two agencies had not submitted expenditure reports since the 1998/99 fiscal year, and five had not submitted any since the 1997/98 fiscal year. We found no evidence to indicate that the Branch had reviewed any of the reports that had been submitted.
- The agencies were not required to submit audited financial statements for the operations funded by the Branch. Furthermore, the Branch had not performed any independent verification to support any figures reported.

Recommendation

To help ensure that transfer-payment agencies funded by the Assistive Devices Program are providing services economically and efficiently, the Ministry should:

- **ensure that it receives sufficient and appropriate financial information for assessing whether funds are being used for the purposes intended;**
- **ensure that the distribution of funds is commensurate with the value of services provided; and**
- **compare the costs to provide services among similar agencies.**

Ministry Response

The Program is now using the Budgeting and Reporting Guidelines for Transfer Payment Agencies, which include requirements for the information noted in the recommendation. The service agreement used with agencies is being updated and additional reports have been added to provide more detail

- The verification letters did not contain sufficient detail to allow the Branch to determine whether all services and equipment paid for had been actually provided.

Recommendation

To better ensure that individuals have actually received the devices and services paid for under its Assistive Devices and Home Oxygen programs, the Ministry should expand its verification letter process to cover all assistive device categories. The Ministry should also:

- **track verification letters sent and replies received;**
- **follow up on any discrepancies or non-replies on a timely basis; and**
- **ensure that verification letters include sufficient detail to allow the Ministry to determine whether vendors are providing all the services and equipment required under their contracts.**

For claims submitted on computer disks, the Ministry should periodically inspect signed invoices maintained by the vendors.

Ministry Response

Although the Assistive Devices and Home Oxygen programs have verification policies and procedures in place and have historically routinely audited all device categories through verification letters, recent staffing shortages have forced the program to focus on a few categories. With new staff on board, the Co-ordinator, Audit and Quality Assurance has, over the past few months, re-established the verification and tracking processes that were on hold. The Assistive Devices and Home Oxygen programs are currently establishing performance objectives that include monthly and annual letter-verification targets. The performance objectives will include a regular schedule of site visits with some of the larger vendors. Regular reports are now being provided to management, identifying cases referred to the Ministry's Fraud Program, the number of recoveries anticipated, and recoveries actually received.

Accountability of Transfer-payment Agencies

The Assistive Devices Program annually provides funding totalling approximately $8 million to various transfer-payment agencies. These include:

- the Canadian Diabetes Association for the purchase and distribution of blood-glucose monitors and testing strips;
- four centralized equipment pools to purchase certain high-cost devices to lease to individuals that need those devices; and
- seven augmentative communication centres (ACCs) that assess the needs of individuals for communication aids.

Based on the contracts we reviewed, all agencies were required to submit:

- an annual budget three months prior to the beginning of the fiscal year;
- an annual statement of actual revenues and expenditures three months after year-end, or every six months for ACCs; and
- progress reports on the outcomes expected by the agency every six months.

Overall, the Branch was not receiving information that was sufficient, appropriate, or timely enough to allow it to make informed funding decisions. Specifically, we found that:

- For the 1999/2000 fiscal year, only one agency had submitted a budget by the required deadline; six others were late, and five agencies never submitted a budget. The Branch took an average of eight months to review and approve the budgets that had been submitted.
- Funding for ACCs was historically based and has remained unchanged since 1991. We found no evidence to indicate that funding was prioritized or allocated based on outcomes or the efficient and effective use of resources. Comparing the costs of agencies providing similar services can assist in detecting funding inequities and in identifying whether services are being provided economically and efficiently. For example, we analyzed the funding provided to ACCs on the basis of the number of individuals assessed annually, and found that, during the 1999/2000 fiscal year, the costs to provide services ranged from $600 per client to $2,300 per client.
- None of the ACCs met their reporting requirements for the 1999/2000 fiscal year or for the first half of the 2000/01 fiscal year. Two agencies had not submitted expenditure reports since the 1998/99 fiscal year, and five had not submitted any since the 1997/98 fiscal year. We found no evidence to indicate that the Branch had reviewed any of the reports that had been submitted.
- The agencies were not required to submit audited financial statements for the operations funded by the Branch. Furthermore, the Branch had not performed any independent verification to support any figures reported.

Recommendation

To help ensure that transfer-payment agencies funded by the Assistive Devices Program are providing services economically and efficiently, the Ministry should:

- **ensure that it receives sufficient and appropriate financial information for assessing whether funds are being used for the purposes intended;**
- **ensure that the distribution of funds is commensurate with the value of services provided; and**
- **compare the costs to provide services among similar agencies.**

Ministry Response

The Program is now using the Budgeting and Reporting Guidelines for Transfer Payment Agencies, which include requirements for the information noted in the recommendation. The service agreement used with agencies is being updated and additional reports have been added to provide more detail

on what services clients are being provided for funds received. The Program will use the information from periodic reports received from the agencies to determine future funding requirements. Training sessions have been established with these agencies for fall 2001 to review the budget-submissions process and new reporting requirements and analyses. The additional information required will enable a better cost comparison among similar agencies.

Consulting Services

The Branch paid a total of $2.2 million to three information-technology consultants over a nine-year period (April 1, 1992 is the earliest date for which expenditure data are still available). Two of the consultants had been providing services on a full-time basis since 1989. While the third began on a full-time basis in 1992, the consultant was working only occasionally at the time of our current audit. The services of one of the consultants had not been re-tendered since originally acquired in 1992. Instead, the contract had been extended a total of 15 times. The Branch was not able to provide any documentation to justify not acquiring these services competitively.

The contracts for these consultants indicated that they had been hired to perform services of an ongoing nature. This included "full-time ongoing systems support and development," including the maintenance of system integrity, system documentation, and providing regular operational reports. The consultants were paid $400 to $470 per day, which is at least 40% more than amounts paid to government employees doing similar work in other government programs.

Recommendation

To better ensure that value for money is received when engaging consultants, the Ministry should ensure that:

- **consultants are engaged through a competitive process; and**
- **long-term needs are addressed by hiring employees rather than engaging consultants at a rate of remuneration significantly exceeding the amounts paid to government employees performing similar duties.**

Ministry Response

The information-management system known as Themis that consultants are working on is critical to the daily operations of the Assistive Devices and Home Oxygen programs. The programs have attempted to hire permanent staff on a number of occasions. The current upgrading of both the hardware and software and the conversion of the existing database will increase the stability and viability of the Themis system and, it is hoped, will make it easier to recruit staff. The goal is that, by June 2002, permanent ministry staff will replace the fee-for-service system-support consultants and, where consultants are engaged, a competitive process will be used.

CLAIMS APPROVAL, PROCESSING, AND PAYMENT

The Ministry's Operational Support Branch receives and verifies all applications for financial assistance under the Assistive Devices and Home Oxygen programs to ensure that eligibility criteria are met. The Ministry's Supply and Financial Services Branch processes all claims for payment, including matching the information on the claim with the approved application.

We found that, overall, claims had been properly approved, processed, and paid. However, we noted that there was a time lag between the date of a person's death and the updating of the Ministry's records, which created the risk of payments being made in respect of deceased persons. The Branch did not have procedures in place to control this risk.

At our request, the Branch ran a computer check and found that during the last two fiscal years payments had been made to over 600 deceased ostomy grant recipients and, on 200 occasions, to oxygen vendors for clients who were deceased prior to the date of delivery. The total overpayments amounted to approximately $300,000, of which approximately $180,000 had been recovered at the time of our audit through notification by family members and vendors. Prior to our requesting the computer check, the Branch was unaware that an additional $120,000 should have been recovered.

Recommendation

To help ensure that Assistive Devices and Home Oxygen program payments are made only for valid claims, the Ministry should implement procedures to run computer checks to identify payments made on behalf of individuals who are deceased.

Ministry Response

The Assistive Devices and Home Oxygen programs rely on receiving notification of a client's death from the Ontario Health Insurance Plan, the relevant vendor, or the client's family. Procedures are now in place to identify individuals who are deceased, follow up on a regular basis, and maintain a database on the amount of the recoveries.

PERFORMANCE MEASUREMENT, MONITORING, AND EVALUATION

The Assistive Devices and Home Oxygen programs have well-defined and measurable objectives that have been established as part of the Ministry's annual business planning process. However, the programs' information system did not provide senior management with the information necessary to determine whether objectives were being met. While reports were regularly provided on total expenditures and case volume statistics for each device category, many key performance indicators were not tracked and reported. These included:

on what services clients are being provided for funds received. The Program will use the information from periodic reports received from the agencies to determine future funding requirements. Training sessions have been conducted with these agencies for fall 2001 to review the budget-submissions process and new reporting requirements and analyses. The additional information required will enable a better cost comparison among similar agencies.

Consulting Services

The Branch paid a total of $2.2 million to three information-technology consultants over a nine-year period (April 1, 1992 is the earliest date for which expenditure data are still available). Two of the consultants had been providing services on a full-time basis since 1989. While the third began on a full-time basis in 1992, the consultant was working only occasionally at the time of our current audit. The services of one of the consultants had not been re-tendered since originally acquired in 1992. Instead, the contract had been extended a total of 15 times. The Branch was not able to provide any documentation to justify not acquiring these services competitively.

The contracts for these consultants indicated that they had been hired to perform services of an ongoing nature. This included "full-time ongoing systems support and development," including the maintenance of system integrity, system documentation, and providing regular operational reports. The consultants were paid $400 to $470 per day, which is at least 40% more than amounts paid to government employees doing similar work in other government programs.

Recommendation

To better ensure that value for money is received when engaging consultants, the Ministry should ensure that:

- **consultants are engaged through a competitive process; and**
- **long-term needs are addressed by hiring employees rather than engaging consultants at a rate of remuneration significantly exceeding the amounts paid to government employees performing similar duties.**

Ministry Response

The [illegible] system known as Thermis that consultants are working on is critical to the daily operations of the Assistive Devices and Home Oxygen programs. The programs have attempted to hire permanent staff on a number of occasions. The current upgrading of both the hardware and software and the conversion of the existing database will increase the stability and viability of the Thermis system and, it is hoped, will make it easier to recruit staff. The goal is that, by June 2002, permanent ministry staff will replace [illegible] consultants and, where consultants are engaged, [illegible] will be used.

CLAIMS APPROVAL, PROCESSING, AND PAYMENT

The Ministry's Operational Support Branch receives and verifies all applications for financial assistance under the Assistive Devices and Home Oxygen programs to ensure that eligibility criteria are met. The Ministry's Supply and Financial Services Branch processes all claims for payment, including matching the information on the claim with the approved application.

We found that, overall, claims had been properly approved, processed, and paid. However, we noted that there was a time lag between the date of a person's death and the updating of the Ministry's records, which created the risk of payments being made in respect of deceased persons. The Branch did not have procedures in place to control this risk.

At our request, the Branch ran a computer check and found that during the last two fiscal years payments had been made to over 600 deceased ostomy grant recipients and, on 200 occasions, to oxygen vendors for clients who were deceased prior to the date of delivery. The total overpayments amounted to approximately $300,000, of which approximately $180,000 had been recovered at the time of our audit through notification by family members and vendors. Prior to our requesting the computer check, the Branch was unaware that an additional $120,000 should have been recovered.

Recommendation

To help ensure that Assistive Devices and Home Oxygen program payments are made only for valid claims, the Ministry should implement procedures to run computer checks to identify payments made on behalf of individuals who are deceased.

Ministry Response

The Assistive Devices and Home Oxygen programs rely on receiving notification of a client's death from the Ontario Health Insurance Plan, the relevant vendor, or the client's family. Procedures are now in place to identify individuals who are deceased, follow up on a regular basis, and maintain a database on the amount of the recoveries.

PERFORMANCE MEASUREMENT, MONITORING, AND EVALUATION

The Assistive Devices and Home Oxygen programs have well-defined and measurable objectives that have been established as part of the Ministry's annual business planning process. However, the programs' information system did not provide senior management with the information necessary to determine whether objectives were being met. While reports were regularly provided on total expenditures and case volume statistics for each device category, many key performance indicators were not tracked and reported. These included:

- the time taken to process claims and payments;
- the volume and nature of complaints;
- the number of appeals and their success rates; and
- exception reports listing claims approved without meeting eligibility criteria.

Without proper tracking and reporting of key information, problems may not be identified and corrective action may not be taken where necessary.

In our 1996 Annual Report, we noted that standing committees, consisting of consumers, health-care professionals, vendors, and manufacturers, had been established for most types of assistive devices, including home oxygen. The role of these committees included providing advice and recommendations to the Branch relating to eligibility criteria, funding, devices to be covered, and appropriate standards and credentials for authorizers and vendors. The standing committees also advised the Branch on the development of program evaluation and monitoring strategies to evaluate performance. However, only the standing committee on home oxygen and respiratory devices has been active during the past three years.

In 2000, the Branch hired a consultant to conduct an operational review to identify ways to improve program efficiency and effectiveness and to evaluate customer satisfaction with the services provided. In August 2000, the consultant made a number of recommendations in the areas of program objectives and organization, policy development, and operations. These recommendations included re-introducing the standing committees. At the end of our audit, the Branch was in the process of reviewing all of the consultant's recommendations.

Recommendation

To better monitor and evaluate the performance of the Assistive Devices and Home Oxygen programs, the Ministry should:

- **ensure its information systems provide accurate and timely reports on all key performance measures; and**
- **reinstate the standing committees that provide technical advice for all major assistive device categories.**

Ministry Response

An assessment process and an implementation plan for information systems have been completed. As upgrades to the programs' information-management system are completed, senior program management will identify the additional regular reports needed by the program management team to assist with monitoring and incorporating improvements.

Terms of Reference were completed for the standing committees, and recruitment for chairs of the three outstanding committees will be completed by the fall of 2001.

Complaints Process

Complaints can often provide important information on the quality of services and the administration of funds. Branch staff provided us with 25 complaint files for the Assistive Devices and Home Oxygen programs for the year 2000. The Branch was unable to determine whether these files represented all complaints received during that year because it did not maintain records of the number or nature of complaints, investigations undertaken, or their outcomes.

While the Branch has developed procedures for investigating complaints, we found no indication that it had assessed whether the procedures were adequate or were being applied consistently. We also found no evidence to indicate that the outcomes of complaint investigations had been forwarded to senior management for review or to the Ministry's investigation unit if required.

On average, it took the Branch four and a half months to resolve a complaint. In one case, a client's complaint about potential fraud by an oxygen vendor was not followed up on for one year. In another case, an individual who did not meet eligibility criteria was granted a full year of funding for home oxygen supplies as compensation for the Branch taking too long to respond to the individual's complaint.

Recommendation

To help identify any areas requiring improvements in the delivery of the Assistive Devices and Home Oxygen programs, the Ministry should ensure that:

- **complaints are investigated in a timely manner; and**
- **the results of those investigations are provided to senior management.**

Ministry Response

Some delays in following up on complaints were due to staff vacancies. Following the recent reorganization of the Branch, individual client complaints are being dealt with verbally or in writing. Documents on client complaints and their resolution are now being maintained in the claims-application files. Procedures are being revised and updated to ensure that complaints are dealt with in a timely manner and forwarded to senior management as appropriate.

OTHER MATTER

BENEFITS FROM OTHER GOVERNMENT SOURCES

Under the programs' general eligibility rules, coverage is not available to individuals who are eligible for funding from the Workplace Safety and Insurance Board (WSIB) or the federal

- the time taken to process claims and payments;
- the volume and nature of complaints;
- the number of appeals and their success rates; and
- exception reports listing claims approved without meeting eligibility criteria.

Without proper tracking and reporting of key information, problems may not be identified and corrective action may not be taken where necessary.

In our 1996 Annual Report, we noted that standing committees, consisting of consumers, health-care professionals, vendors, and manufacturers, had been established for most types of assistive devices, including home oxygen. The role of these committees included providing advice and recommendations to the Branch relating to eligibility criteria, funding, devices to be covered, and appropriate standards and credentials for authorizers and vendors. The standing committees also advised the Branch on the development of program evaluation and monitoring strategies to evaluate performance. However, only the standing committee on home oxygen and respiratory devices has been active during the past three years.

In 2000, the Branch hired a consultant to conduct an operational review to identify ways to improve program efficiency and effectiveness and to evaluate customer satisfaction with the services provided. In August 2000, the consultant made a number of recommendations in the areas of program objectives and organization, policy development, and operations. These recommendations included re-introducing the standing committees. At the end of our audit, the Branch was in the process of reviewing all of the consultant's recommendations.

Recommendation

To better monitor and evaluate the performance of the Assistive Devices and Home Oxygen programs, the Ministry should:

- **ensure its information systems provide accurate and timely reports on all key performance measures; and**
- **reinstate the standing committees that provide technical advice for all major assistive device categories.**

Ministry Response

An assessment process and an implementation plan for information systems have been completed. As upgrades to the programs' information-management system are completed, senior program management will identify the additional regular reports needed by the program management team to assist with monitoring and incorporating improvements.

Terms of Reference were completed for the standing committees, and recruitment for chairs of the three outstanding committees will be completed by the fall of 2001.

Complaints Process

Complaints can often provide important information on the quality of services and the administration of funds. Branch staff provided us with 25 complaint files for the Assistive Devices and Home Oxygen programs for the year 2000. The Branch was unable to determine whether these files represented all complaints received during that year because it did not maintain records of the number or nature of complaints, investigations undertaken, or their outcomes.

While the Branch has developed procedures for investigating complaints, we found no indication that it had assessed whether the procedures were adequate or were being applied consistently. We also found no evidence to indicate that the outcomes of complaint investigations had been forwarded to senior management for review or to the Ministry's investigation unit if required.

On average, it took the Branch four and a half months to resolve a complaint. In one case, a client's complaint about potential fraud by an oxygen vendor was not followed up on for one year. In another case, an individual who did not meet eligibility criteria was granted a full year of funding for home oxygen supplies as compensation for the Branch taking too long to respond to the individual's complaint.

Recommendation

To help identify any areas requiring improvements in the delivery of the Assistive Devices and Home Oxygen programs, the Ministry should ensure that:

- **complaints are investigated in a timely manner; and**
- **the results of those investigations are provided to senior management.**

Ministry Response

Some delays in following up on complaints were due to staff vacancies. Following the recent reorganization of the Branch, individual client complaints are being dealt with verbally or in writing. Documents on client complaints and their resolution are now being maintained in the claims-application files. Procedures are being revised and updated to ensure that complaints are dealt with in a timely manner and forwarded to senior management as appropriate.

OTHER MATTER

BENEFITS FROM OTHER GOVERNMENT SOURCES

Under the programs' general eligibility rules, coverage is not available to individuals who are eligible for funding from the Workplace Safety and Insurance Board (WSIB) or the federal

Department of Veterans' Affairs (DVA). Applicants are required to declare on their application forms that they are not eligible for funding from the WSIB or DVA.

At the time of our audit, the Branch was not obtaining independent verification of this information. In April 1997, the Branch had entered into an information-sharing agreement with the WSIB to help identify improper hearing device billings to the Assistive Devices Program. The arrangement involved the Assistive Devices Program forwarding, on a monthly basis, a list of 30 names with other identifying data to the WSIB to be cross-checked against their records. According to senior branch staff, the WSIB discontinued providing this assistance after nineteen months.

The Branch's attempts to secure the co-operation of the Department of Veterans' Affairs in this matter have been unsuccessful to date.

Recommendation

To help ensure that assistance under its Assistive Devices and Home Oxygen programs is not duplicated at taxpayers' expense, the Ministry should again pursue co-operation with the Workplace Safety and Insurance Board (WSIB) and the Department of Veterans' Affairs (DVA).

Ministry Response

The Assistive Devices Program is currently making some recoveries from the WSIB. The WSIB includes on its form a clause asking if the client who is requesting funding for a device is in receipt of funding from any other source. When clients indicate in the affirmative, the WSIB follows up with them to see if they already received funding from the Assistive Devices Program and, if they have, will reimburse the Assistive Devices Program. The Ministry will pursue re-instituting the cross-check process that was in place from April 1997 to October 1998, at which time the WSIB discontinued it.

The Senior Manager and the Co-ordinator of Audit and Quality Assurance sought a similar arrangement with management of the DVA during a follow-up meeting held in the spring of 2001. So far, DVA has not agreed to implement any type of verification process because of continued lack of staff resources.

Department of Veterans' Affairs (DVA). Applicants are required to declare on their application forms that they are not eligible for funding from the WSIB or DVA.

At the time of our audit, the Branch was not obtaining independent verification of this information. In April 1997, the Branch had entered into an information-sharing agreement with the WSIB to help identify improper hearing device billings to the Assistive Devices Program. The arrangement involved the Assistive Devices Program forwarding, on a monthly basis, a list of 30 names with other identifying data to the WSIB to be cross-checked against their records. According to senior branch staff, the WSIB discontinued providing this assistance after nineteen months.

The Branch's attempts to secure the co-operation of the Department of Veterans' Affairs in this matter have been unsuccessful to date.

Recommendation

To help ensure that assistance under its Assistive Devices and Home Oxygen programs is not duplicated at taxpayers' expense, the Ministry should again pursue co-operation with the Workplace Safety and Insurance Board (WSIB) and the Department of Veterans' Affairs (DVA).

Ministry Response

The Assistive Devices Program is currently making some recoveries from the WSIB. The WSIB includes on its form a clause asking if the client who is requesting funding for a device is in receipt of funding from any other source. When clients indicate in the affirmative, the WSIB follows up with them to see if they already received funding from the Assistive Devices Program and, if they have, will reimburse the Assistive Devices Program. The Ministry will pursue reinstituting the cross-check process that was in place from April 1997 to October 1998 at which time the WSIB discontinued it.

The Senior Manager and the Co-ordinator of Audit and Quality Assurance sought a similar arrangement with management of the DVA during a follow-up meeting held in the spring of 2001. So far, DVA has not agreed to implement any type of verification process because of continued lack of staff resources.

MINISTRY OF TRANSPORTATION

3.11–Road User Safety Program

BACKGROUND

The Ministry of Transportation's goal is to foster improved road user safety and well-planned highway expansion and preservation to bolster provincial growth and development. The Ministry's Safety and Regulation Division administers the Road User Safety Program (Program) with the following key responsibilities:

- setting safety standards, policies, and regulations for road users, vehicles, and commercial carriers;
- inspecting, monitoring, and enforcing compliance with those standards;
- testing and licensing drivers and vehicles;
- educating drivers about safe driving behaviour and about government policies and legislation for road user safety; and
- maintaining information on every driver, vehicle, and commercial carrier in Ontario.

The Ministry's Road User Safety Program, through public education, legislation, and enforcement, strives to ensure that all drivers take responsibility for their behaviour on Ontario's roads.

Pursuant to the *Highway Traffic Act,* the Ministry is responsible for protecting the public by ensuring that the privilege of driving is granted to, and retained by, only those persons who demonstrate that they can drive safely. Full driving privileges are to be granted to novice drivers only after they acquire experience and develop or improve safe driving skills in controlled conditions.

To carry out its responsibilities, the Ministry operates 48 driver examination centres and 37 temporary examination points that ministry staff travel to on designated days to administer driver examinations. Another eight ministry offices offer written driver examinations, as well as driver and vehicle issuing services, such as renewals for licences and validation tags and transfers of vehicle ownership. The Ministry also operates 60 kiosks throughout the province that issue validation tags, provide driver record abstracts, and allow drivers to input any changes to their address. In addition, the Ministry has contracted with 280 private issuing offices that provide driver and vehicle licence renewal and related services.

In Ontario, there are approximately 8.1 million licensed drivers and 9.2 million registered vehicles. During the 2000/01 fiscal year, the Ministry administered 611,000 road tests and

549,000 written tests and processed over 18 million over-the-counter transactions. The Road User Safety Program spent $101 million, and its licensing and registration activities generated approximately $894 million in revenue.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Road User Safety Program were to assess whether the Ministry had adequate procedures in place to:

- ensure that resources were managed with due regard for economy and efficiency;
- ensure compliance with legislation and government and ministry policies; and
- measure and report on the Ministry's effectiveness in fulfilling its legislated responsibilities.

The criteria used to conclude on our audit objectives were discussed with and agreed to by senior ministry management and related to systems, policies, and procedures that the Ministry should have in place.

The scope of our audit, which was substantially completed by February 2001, included discussions with staff and a review and analysis of documentation provided to us by the Ministry's head office and regional offices. By means of a survey we also canvassed ministry staff who worked in the driver examination centres as well as private issuers. In addition, we reviewed practices in other jurisdictions with respect to road user safety programs and their experiences with outsourcing various aspects of the program. The scope of our audit did not include the Ministry's Carrier Safety and Enforcement Branch as it was covered by our 1997 audit of Commercial Vehicle Safety and Regulation, which we followed up on in 1999.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our audit included a review of the activities of the Ministry's Internal Audit Services Branch. However, we did not reduce the scope of our audit work as the Branch had not issued any recent reports on the administration of the Road User Safety Program. However, the Branch had carried out some risk assessments on certain processes within the Program and, in these areas, we incorporated their work into our audit procedures.

Ministry-imposed Limitations on Access to Information

Contrary to Section 10 of the *Audit Act*, management at the Ministry's Safety and Regulation Division did not provide us with all the information and explanations needed to complete our audit of the Road User Safety Program, thereby limiting our ability to fulfill our legislated audit responsibilities. The *Audit Act* states that every ministry of the public service:

> ...shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property

> belonging to or in use by the ministry...and necessary to the performance of the duties of the Auditor under this Act. (Section 10)

When conducting audit examinations, audit staff must have full access to all pertinent information and explanations. During this audit, however, we encountered difficulties and delays in obtaining the required information: we were not given full access to files or given all the information we requested. In some cases, information had been altered by deleting parts of documents that were provided, or information was specifically prepared to only answer our questions without providing supporting documentation to verify the answers.

Finally, restrictions were often placed on ministry staff in that they were not allowed to be interviewed without their superiors present. Consequently, staff, who typically have the best hands-on knowledge of program operations, may have been inhibited from speaking freely.

As stated in the professional handbook of the Canadian Institute of Chartered Accountants: "The assumption of management's good faith is a fundamental auditing postulate. . . . This assumption means, in the absence of evidence to the contrary, the auditor can accept accounting records and documentation as genuine and representations as complete and truthful." However, management of the Safety and Regulation Division hindered the audit process and, despite repeated requests for access to original or supporting documentation, did not provide complete information for this audit.

Another result of the difficulties we encountered was that many more hours of audit time had to be unnecessarily spent implementing additional and alternative audit procedures.

MINISTER'S COMMITMENT

Subsequent to the completion of our audit, we reiterated our concerns regarding access to information to the new Deputy Minister of Transportation, who had been appointed March 31, 2001. The Deputy Minister presented our concerns to the new Minister of Transportation, and a meeting was arranged to discuss access to information issues. Subsequent to that meeting, the Minister wrote a letter to the Provincial Auditor dated June 28, 2001, as excerpted below:

> I appreciate the gravity of the issues you raised and as I said at our meeting, I am deeply distressed at the matters brought to my attention. Following our conversation I directed the first item of business for the MTO audit committee is the development of a Code of Conduct for dealing with your office. You will be consulted on the content of this Code, which will be fully implemented throughout the Ministry by the end of Summer 2001.
>
> As I mentioned this morning, I feel very strongly about the vital role of your office in serving the public and the Legislative Assembly to ensure value for money in the operations of government. Fulfilling this role requires that you have open and unfettered access to all necessary information needed to carry out your audit. As a result, I have instructed the MTO audit committee to provide me with an update on their progress by August 13, 2001.
>
> Thank you again for bringing these serious matters to my attention. You have my personal commitment that you will have no such difficulties with my Ministry in the future.
>
> [signed]
>
> Brad Clark,
> Minister

This letter clearly expresses the Minister's commitment to take corrective action to facilitate the work of our Office. We are confident that the commitments conveyed to us by the new Minister and Deputy Minister will ensure that the access to information problems we encountered during this audit will not re-occur in future audits.

OVERALL AUDIT CONCLUSIONS

We concluded that in managing resources for its Road User Safety Program, the Ministry was deficient in ensuring due regard for economy and efficiency. We also concluded that the Ministry did not ensure compliance with programs designed to enhance road safety and that procedures to measure and report on program effectiveness were not satisfactory.

Deficiencies related to due regard for economy and efficiency and compliance included:

- The Ministry hired 280 additional staff in the 16 months ended January 2001 at a cost of $10.3 million to reduce the lengthy waiting time for drivers' road tests and then opted for outsourcing driver testing without a completed business case to support this decision.
- A significant number of applicants were waiting over six months to take a road test even though the Ministry's maximum standard waiting period is set at six weeks.
- Extreme variations in driver examiner pass rates have persisted for over 10 years without resolution.
- The Ministry failed to demonstrate that the $101 million it will spend on computer systems work was supported by sufficient strategic plans and a proper business case.
- The Ministry did not properly manage millions of dollars worth of consultants' work—often without following a competitive tendering process and bypassing relevant Management Board of Cabinet directives.
- The Ministry ineffectively managed its private issuers such that issuers were not sufficiently being held accountable for cash management, commissions charged, and stock like licence plates and renewal validation tags.
- The Ministry had not adequately dealt with an accumulation of over 39,000 NSF (not sufficient funds) cheques submitted to pay vehicle registration fees and municipal parking fines.
- The achievement of the Ministry's road user safety goals was impaired because certain drivers were allowed to operate vehicles even when:
    - they had taken a road test that was shorter than the minimum standard time needed to properly evaluate the necessary driving skills;
    - their driver's licence had been suspended because of impaired driving but this suspension had been rescinded without justification;
    - they had a medical condition that could make it dangerous for them to operate a vehicle (the backlog of unprocessed reports by medical practitioners and optometrists stood at 30,000, some dating as far back as 1997);
    - they had accumulated a number of demerit points and, because of backlogs in scheduling interviews, the Ministry did not take the required remedial action; and

- the waiting period to take their first road test in the graduated licensing system was shortened because they had taken a driver education course, even though the Ministry knew since 1998 that such drivers had a 45% higher collision rate than new drivers who had not had their waiting times reduced.

Deficiencies related to procedures to measure and report on the effectiveness of the Road User Safety Program included the following:

- Annual road safety reports were out of date (the last one was for 1997) and did not contain recommendations for the prevention of motor vehicle accidents as required under the *Highway Traffic Act.*
- With respect to customer service, although users were 95% satisfied with self-service kiosks, 49% of people responding to comment cards completed at ministry and private issuing offices were dissatisfied. This was mainly due to lengthy wait times, service not being prompt and efficient, and staff not being courteous and helpful.
- The key performance measure used to measure the success of the Road User Safety Program—the rate of collision fatalities per 10,000 drivers—is not within the direct control of the Program.

DETAILED AUDIT OBSERVATIONS

DUE REGARD FOR ECONOMY AND EFFICIENCY

Driver Examinations

The Ministry's driver examination function is responsible for conducting vision, knowledge, and road tests for individuals applying for a driver's licence. We reviewed the operations of the driver examination centres, which included observing the timeliness of road tests, the application of driver testing standards, and the training and monitoring of driver examiners. We found significant weaknesses in the management of the driver examination function, as outlined below.

With the Graduated Licensing System, an applicant must first pass a written exam that tests the person's knowledge of the rules of the road and safe driving practices. The Ministry has 10 different versions of the written test that have remained substantially unchanged for the past five years. We noted that certain driving schools had produced their own driver's handbooks that contained the answers and the exact questions found in the Ministry's version of the written test. Because the Ministry did not periodically change the content of its written tests, students from these driving schools received an unfair advantage on the written test. In addition, there is a risk that rather than actually learning the rules of the road, these applicants could have merely memorized the correct answers to test questions.

In our audits of the Program in 1989 and in 1994, we noted the problem of lengthy waiting times to take a road test. Since the introduction in 1994 of the Graduated Licensing System—which demands that applicants take two road tests rather than one, as required previously—the problem of waiting times has worsened. The Ministry has not adequately managed the driver examination function to achieve its standard of a maximum six-week waiting period for a road test. In September 1999, applicants for road tests were waiting as long as 64 weeks (15 months). To help reduce waiting times and achieve the six-week standard, between September 1999 and January 2001, the Ministry hired 280 additional staff at an estimated cost of $10.3 million. At some of its centres, however, the Ministry was still experiencing significant waiting times, ranging up to 29 weeks (over 6 months). Lengthy waiting times to take a road test remain a chronic problem that needs to be resolved by the Ministry.

Standards for road tests are set by the Ministry to ensure that all exams are conducted in a consistent manner throughout the province. District supervisors are required to monitor pass rates as well as periodically observe examiners during road tests. The average provincial pass rate for the 1999/2000 fiscal year was 62%. While some differences in pass rates are expected, we noted considerable variances between regions, examination centres, and examiners at the same centre. On a regional basis, the average pass rates ranged from 55% to 84%. We reviewed in detail the pass rates for eight driver examination centres, some of which we visited, and noted the following variances.

Averages and Ranges of Centre and Examiner Pass Rates, 1999/2000

Exam Centre	Centre's Average Pass Rate (%)	Highest Examiner Pass Rate (%)	Lowest Examiner Pass Rate (%)
A	91	99	81
B	86	93	84
C	77	93	70
D	67	84	45
E	61	84	52
F	60	73	46
G	47	62	22
H	45	63	30

Source of data: Ministry of Transportation

For the eight driver examination centres noted above, the pass rates ranged from 45% to 91%. In addition, some examiners passed almost every individual tested (99%), while others passed as few as 22%. Supervisors responding to our survey indicated that they generally do not monitor the pass/fail rates of the examiners as required by ministry policy. In addition, the Ministry's Safety and Regulation Division did not evaluate the pass/fail rates of regional or individual examination centres to determine whether the standards were being applied consistently. The significant variances we noted highlight the inconsistent application of driver examination standards and are similar to variances we noted in our 1989 audit of the Program. In response to our survey, experienced driver examiners noted that they received little formal or refresher training—training they felt was necessary to ensure that ministry standards for road tests were applied in a consistent manner.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

The Ministry's standard time for a road test is a minimum of 20 minutes for the first driving test and 30 minutes for the second test. Over two-thirds of examiners responding to our survey indicated that, due to the scheduling backlog, they had shortened tests in an attempt to help clear up the backlog of applicants. In fact, at one major centre, the road tests we timed averaged 12 minutes, and over 90% of these took less than the minimum 20 minutes. Examiners responding to our survey also indicated that the standard times, which they were already not meeting, were insufficient for evaluating drivers. Examiners also commented that they felt "pressure to pass borderline applicants to help clear up the backlog." We concluded that examiners were not adequately testing and evaluating drivers in accordance with ministry standards, which increased the risk that applicants were obtaining driver's licences even though they might not possess the necessary driving skills.

Recommendation

To help ensure that the driver examination function of the Road User Safety Program efficiently meets its objective of passing only qualified individuals, the Ministry should:

- **periodically revise written tests;**
- **achieve the six-week waiting time standard for road tests;**
- **implement procedures, including periodic training for examiners, to better achieve consistency in the application of driver test standards; and**
- **adequately test and evaluate applicants in accordance with ministry driver test standards.**

Ministry Response

The Ministry will review the current bank of questions and revise the knowledge test on a regularly scheduled basis (for example, annually).

Written test examinations are developed using a bank of 70 existing test questions that are scrambled within 10 test versions, with the answer in the multiple choice list appearing in different positions. This makes each test unique and makes it unlikely that the same test would be administered to an individual on a subsequent attempt. In addition, test questions are amended/updated as procedures or legislation change. In February 2001, a bulletin was issued to remind all test administrators of the policy and procedures to follow to ensure the confidentiality of ministry examinations.

In the short term, the Ministry is working to achieve its six-week road test waiting time standard. To do so, the Ministry has:

- ***provided extended hours of service;***
- ***hired 293 new staff, including 184 driver examiners, and plans to hire 74 additional staff;***
- ***opened three new driver examination centres;***
- ***set up a Road Test Call Centre to allow applicants to book tests anywhere in the province; and***

The Ministry's standard time for a road test is a minimum of 20 minutes for the first driving test and 30 minutes for the second test. Over two-thirds of examiners responding to our survey indicated that, due to the scheduling backlog, they had shortened tests in an attempt to help clear up the backlog of applicants. In fact, at one major centre, the road tests we timed averaged 12 minutes, and over 90% of these took less than the minimum 20 minutes. Examiners responding to our survey also indicated that the standard times, which they were already not meeting, were insufficient for evaluating drivers. Examiners also commented that they felt "pressure to pass borderline applicants to help clear up the backlog." We concluded that examiners were not adequately testing and evaluating drivers in accordance with ministry standards, which increased the risk that applicants were obtaining driver's licences even though they might not possess the necessary driving skills.

Recommendation

To help ensure that the driver examination function of the Road User Safety Program efficiently meets its objective of passing only qualified individuals, the Ministry should:

- **periodically revise written tests;**
- **achieve the six-week waiting time standard for road tests;**
- **implement procedures, including periodic training for examiners, to better achieve consistency in the application of driver test standards; and**
- **adequately test and evaluate applicants in accordance with ministry driver test standards.**

Ministry Response

The Ministry will review the current bank of questions and revise the knowledge test on a regularly scheduled basis (for example, annually).

Written test examinations are developed using a bank of 70 existing test questions that are scrambled within 10 test versions, with the answer in the multiple choice list appearing in different positions. This makes each test unique and makes it unlikely that the same test would be administered to an individual on a subsequent attempt. In addition, test questions are amended/ updated as procedures or legislation change. In February 2001, a bulletin was issued to remind all test administrators of the policy and procedures to follow to ensure the confidentiality of ministry examinations.

In the short term, the Ministry is working to achieve its six-week road test waiting time standard. To do so, the Ministry has:

- ***provided extended hours of service;***
- ***hired 290 new staff, including 184 driver examiners, and plans to hire 74 additional staff;***
- ***opened three new driver examination centres;***
- ***set up a Road Test Call Centre to allow applicants to book tests anywhere in the province; and***

- ***Implemented a $25 fee for missed appointments that are not cancelled 24 hours in advance.***

In the long term, the government responded to lengthy wait times by approving, in September 1999, the hiring of 301 staff. In order to provide sustained customer service improvements, we also introduced, on May 31, 2001, Bill 65,* Improving Customer Service for Road Users Act, 2001, *as an alternative service delivery option.

Such a move towards the selection of a service provider for driver examination would improve customer service (creating the potential for new value-added services). Criteria would be built into a Service Level Agreement with the service provider to ensure that drivers are carefully and consistently examined in accordance with ministry driver test standards. The service provider would be required to meet the six-week waiting time standard for road tests. It would also be required to commit to ongoing driver examiner training.

Currently, centre supervisors do discretionary check rides (based on selected criteria, including pass/fail rates) with driver examiners. They document information that focuses on the road test requirements—for instance, start and finish times, preamble, manoeuvres, variance to procedures, traffic/weather conditions that may impact length of test, etc.

Beginning in August 2001, the Ministry will implement reviews of driver examiners' road test score sheets and identify driver examiners at either ends of the pass/fail continuum and ensure equity by conducting check rides with these driver examiners. In addition, the Ministry will review best practices to better achieve consistency in the application of driver test standards.

Alternative Service Delivery

The Management Board of Cabinet has issued principles for strategies of alternative service delivery. These principles state that the choice of delivery method should be based on a sound business case and ensure customer service and the best value for money.

In April 2000, the Ministry submitted options for the alternative service delivery of the driver examination function to the Cabinet Committee on Privatization and SuperBuild—a special cabinet committee that reviews the government's privatization proposals and makes recommendations to Cabinet. The proposal presented detailed financial analysis for three alternatives: continue to provide the service, set up a not-for-profit corporation to provide the service, or offer a 10-year licence to an external service provider through a competitive process. The Ministry presented the option for a 10-year licence as the best value from a financial perspective.

On November 17, 2000, the Ministry issued a Request for Qualifications and Expressions of Interest in the delivery of driver examination services. This was intended to give private-sector companies the opportunity to compete for the 10-year licence to deliver driver examination services. One of the Ministry's main objectives in proceeding with the outsourcing was to achieve a maximum six-week waiting period for driver examinations. At the completion of our audit in February 2001, the Ministry was still in the process of evaluating the submissions from its Request for Qualifications and Expressions of Interest.

We reviewed the Ministry's initiative to outsource the driver examination system and had the following concerns:

- The Ministry paid a consultant over $1 million to prepare a business case for alternative service delivery, but we were informed by the consultant that, although the business case had been started, at the Ministry's request it was not completed. Since the objective of the assignment was not achieved, the money spent on the consulting contract was not well spent. In addition, not preparing a business case before undertaking an outsourcing initiative is contrary to principles that the Management Board of Cabinet has outlined in its Alternative Service Delivery Framework.
- The financial information presented to the Cabinet Committee on Privatization and SuperBuild to support the Ministry's calculations and demonstrate the financial prudence of the licence option was taken from the unfinished business case. Nowhere in the portions of the submission we received was this limitation noted. Consequently, we are concerned that the Committee based key decisions for this initiative on incomplete information.
- At the conclusion of our audit in February 2001, the Ministry informed us that it was still in the process of gathering information—such as revenue, costs, volume, and demographics—for the outsourcing of the driver examination function. As well, it was reviewing proposals submitted by the private sector. The Ministry stated that the business case for alternative service delivery would be completed when the successful bidder was selected. We question the prudence of making important decisions, such as selecting a service delivery option, without sufficient information and without a complete business case.

Although we requested that the Ministry provide us with a copy of the parts of the business case that were completed, the submission made to the Cabinet Committee on Privatization and SuperBuild, and the Committee's decision on the Ministry's recommended option, the Ministry only provided us with partial information and did so only after our audit was completed. Therefore, the Ministry did not demonstrate to us that a proper cost/benefit analysis was done, nor did it demonstrate the validity of the assumptions and other information on which the decision to outsource was made.

Recommendation

To ensure that potential outsourcing alternatives for the driver examination function of the Road User Safety Program are analyzed in an objective and thorough manner, the Ministry should:

- **comply with the Management Board of Cabinet Framework on Alternative Service Delivery and ensure that a comprehensive business case is prepared prior to seeking approval for any option; and**
- **ensure that documents submitted to Cabinet—upon which major decisions are to be based—are complete or clearly identify the limitations of the information.**

- ***Implemented a $25 fee for missed appointments that are not cancelled 24 hours in advance.***

In the long term, the government responded to lengthy wait times by approving, in September 1999, the hiring of 301 staff. In order to provide sustained customer service improvements, we also introduced, on May 31, 2001, Bill 65, **Improving Customer Service for Road Users Act, 2001, as an *alternative service delivery option.***

Such a move towards the selection of a service provider for driver examination would improve customer service (creating the potential for new value-added services). Criteria would be built into a Service Level Agreement with the service provider to ensure that drivers are carefully and consistently examined in accordance with ministry driver test standards. The service provider would be required to meet the six-week waiting time standard for road tests. It would also be required to commit to ongoing driver examiner training.

Currently, centre supervisors do discretionary check rides (based on selected criteria, including pass/fail rates) with driver examiners. They document information that focuses on the road test requirements—for instance, start and finish times, preamble, manoeuvres, variance to procedures, traffic/weather conditions that may impact length of test, etc.

Beginning in August 2001, the Ministry will implement reviews of driver examiners' road test score sheets and identify driver examiners at either ends of the pass/fail continuum and ensure equity by conducting check rides with these driver examiners. In addition, the Ministry will review best practices to better achieve consistency in the application of driver test standards.

Alternative Service Delivery

The Management Board of Cabinet has issued principles for strategies of alternative service delivery. These principles state that the choice of delivery method should be based on a sound business case and ensure customer service and the best value for money.

In April 2000, the Ministry submitted options for the alternative service delivery of the driver examination function to the Cabinet Committee on Privatization and SuperBuild—a special cabinet committee that reviews the government's privatization proposals and makes recommendations to Cabinet. The proposal presented detailed financial analysis for three alternatives: continue to provide the service, set up a not-for-profit corporation to provide the service, or offer a 10-year licence to an external service provider through a competitive process. The Ministry presented the option for a 10-year licence as the best value from a financial perspective.

On November 17, 2000, the Ministry issued a Request for Qualifications and Expressions of Interest in the delivery of driver examination services. This was intended to give private-sector companies the opportunity to compete for the 10-year licence to deliver driver examination services. One of the Ministry's main objectives in proceeding with the outsourcing was to achieve a maximum six-week waiting period for driver examinations. At the completion of our audit in February 2001, the Ministry was still in the process of evaluating the submissions from its Request for Qualifications and Expressions of Interest.

We reviewed the Ministry's initiative to outsource the driver examination system and had the following concerns:

- The Ministry paid a consultant over $1 million to prepare a business case for alternative service delivery, but we were informed by the consultant that, although the business case had been started, at the Ministry's request it was not completed. Since the objective of the assignment was not achieved, the money spent on the consulting contract was not well spent. In addition, not preparing a business case before undertaking an outsourcing initiative is contrary to principles that the Management Board of Cabinet has outlined in its Alternative Service Delivery Framework.
- The financial information presented to the Cabinet Committee on Privatization and SuperBuild to support the Ministry's calculations and demonstrate the financial prudence of the licence option was taken from the unfinished business case. Nowhere in the portions of the submission we received was this limitation noted. Consequently, we are concerned that the Committee based key decisions for this initiative on incomplete information.
- At the conclusion of our audit in February 2001, the Ministry informed us that it was still in the process of gathering information—such as revenue, costs, volume, and demographics—for the outsourcing of the driver examination function. As well, it was reviewing proposals submitted by the private sector. The Ministry stated that the business case for alternative service delivery would be completed when the successful bidder was selected. We question the prudence of making important decisions, such as selecting a service delivery option, without sufficient information and without a complete business case.

Although we requested that the Ministry provide us with a copy of the parts of the business case that were completed, the submission made to the Cabinet Committee on Privatization and SuperBuild, and the Committee's decision on the Ministry's recommended option, the Ministry only provided us with partial information and did so only after our audit was completed. Therefore, the Ministry did not demonstrate to us that a proper cost/benefit analysis was done, nor did it demonstrate the validity of the assumptions and other information on which the decision to outsource was made.

Recommendation

To ensure that potential outsourcing alternatives for the driver examination function of the Road User Safety Program are analyzed in an objective and thorough manner, the Ministry should:

- **comply with the Management Board of Cabinet Framework on Alternative Service Delivery and ensure that a comprehensive business case is prepared prior to seeking approval for any option; and**
- **ensure that documents submitted to Cabinet—upon which major decisions are to be based—are complete or clearly identify the limitations of the information.**

Ministry Response

The Ministry undertook the selection of an Alternative Service Delivery model for driver examination to improve customer service and create the potential for new value-added services.

The Ministry, in seeking policy direction from the Cabinet Committee on Privatization and Superbuild to proceed with a procurement strategy, provided financial data outlining the potential for an Alternative Service Delivery solution.

The Ministry agrees with the Provincial Auditor and a full and complete business case analysis will be prepared prior to seeking approval for any recommendations brought forward for the outsourcing of the driver examination function.

Information Technology

The Transportation Information and Information Technology Cluster manages the Ministry's information technology. For the Road User Safety Program, a legacy system that is over 30 years old supports the licensing and registration of drivers and vehicles. The first component, its driver licensing system, was developed in the 1960s. A vehicle registration system component was added in the 1980s. The legacy system's functions include:

- maintaining registration and licensing information on approximately 8.1 million drivers and almost 9.2 million vehicles in Ontario;
- processing almost 1 million batch and on-line transactions daily, or about 250 million transactions per year;
- managing a database with more than 100 million records;
- providing information to monitor the performance of a network of small business operators engaged in the delivery of almost 20 million licensing transactions annually; and
- collecting approximately $900 million annually in revenues.

Since the 1998/99 fiscal year, the Ministry has spent approximately $71 million on the legacy system for new initiatives, maintenance, and ongoing operations.

Over the years, the funding for system enhancements was provided incrementally and was not based on a long-term strategic plan to ensure this critical system's long-term viability. The Ministry has determined that the current legacy system will not efficiently support the government's direction to expand electronic service delivery, including Internet-based service, nor will it easily support additional services and regulatory initiatives.

In December 2000, the Ministry submitted a business case to renew the legacy system to the Management Board of Cabinet. In that submission, the Ministry indicated that the total cost of the proposed renewal was $101 million for the next four years, ending in the 2003/04 fiscal year. The Ministry proposed a phased migration approach in which it would operate both old and renewed infrastructures to ensure business continuity and the maintenance of customer service

Ministry Response

The Ministry undertook the selection of an Alternative Service Delivery model for driver examination to improve customer service and create the potential for new value-added services.

The Ministry, in seeking policy direction from the Cabinet Committee on Privatization and Superbuild to proceed with a procurement strategy, provided financial data outlining the potential for an Alternative Service Delivery solution.

The Ministry agrees with the Provincial Auditor and a full and complete business case analysis will be prepared prior to seeking approval for any recommendations brought forward for the outsourcing of the driver examination function.

Information Technology

The Transportation Information and Information Technology Cluster manages the Ministry's information technology. For the Road User Safety Program, a legacy system that is over 30 years old supports the licensing and registration of drivers and vehicles. The first component, its driver licensing system, was developed in the 1960s. A vehicle registration system component was added in the 1980s. The legacy system's functions include:

- maintaining registration and licensing information on approximately 8.1 million drivers and almost 9.2 million vehicles in Ontario;
- processing almost 1 million batch and on-line transactions daily, or about 250 million transactions per year;
- managing a database with more than 100 million records;
- providing information to monitor the performance of a network of small business operators engaged in the delivery of almost 20 million licensing transactions annually; and
- collecting approximately $900 million annually in revenues.

Since the 1998/99 fiscal year, the Ministry has spent approximately $71 million on the legacy system for new initiatives, maintenance, and ongoing operations.

Over the years, the funding for system enhancements was provided incrementally and was not based on a long-term strategic plan to ensure this critical system's long-term viability. The Ministry has determined that the current legacy system will not efficiently support the government's direction to expand electronic service delivery, including Internet-based service, nor will it easily support additional services and regulatory initiatives.

In December 2000, the Ministry submitted a business case to renew the legacy system to the Management Board of Cabinet. In that submission, the Ministry indicated that the total cost of the proposed renewal was $101 million for the next four years, ending in the 2003/04 fiscal year. The Ministry proposed a phased migration approach in which it would operate both old and renewed infrastructures to ensure business continuity and the maintenance of customer service levels. We understand that in the 2000/01 fiscal year, the project started its initial phase, which included funding for equipment upgrades and overall migration planning. The Ministry is to report back to the Management Board of Cabinet in the fall of 2001 with details on its migration plan and on its implementation of the remaining phases of the renewal.

For audit purposes, we requested access to the Ministry's strategic plans and business case for renewing the legacy system, but the Ministry would not provide us with that information. In fact, even after repeated requests on our part, the Ministry only provided us with incomplete documents that were missing pages and attachments.

Because the Ministry did not provide the necessary information on a timely enough basis for this annual report, we cannot provide assurance that the proposed legacy system renewal was based on a properly completed business case and strategic plan. We will follow up on the Ministry's efforts to develop and implement the proposed legacy system renewal at an appropriate time.

Consulting Services

Since the 1998/99 fiscal year, the Ministry has paid over $27 million for consulting services, primarily for information technology projects and alternative service delivery projects for its Road User Safety Program. In acquiring such services, ministries must comply with the Management Board of Cabinet directives that state the key principles for decision-making during the planning, acquisition, and management of consulting services. These principles include: competition, access, fair and equal treatment of suppliers, responsible management, and best value for money. For instance, ministries must justify the need for retaining the services of consultants; the process for selecting a supplier must be open and fair; suppliers should not be permitted to gain a monopoly for a particular kind of work; ministries must not continuously rely on a particular outside organization; and upon the completion of each consulting assignment, a formal written evaluation should be prepared. As well, as of May 2000, when they acquire goods and services, ministries must use vendors of record, which are firms qualified and listed by the Management Board Secretariat through a standing agreement.

We examined a sample of assignments for consulting services and found that the Ministry often disregarded Management Board of Cabinet directives and ministry policies and procedures for the acquisition of consulting services and did not have adequate procedures in place to ensure the economic acquisition and proper management of consulting services. For example:

- We noted contracts totalling $4.5 million where the Ministry hired consultants either with no justification on file of the need for the assignment or with justification that was prepared after the contracts were signed.
- Without a written contract in place, the Ministry engaged consultants for over $1 million. For one of these engagements, work began eight months prior to the date the contract was signed. In addition, the terms of reference for these assignments were not documented until well after the work began, which brings into question what work the consultant carried out before the scope of work was defined.
- For the assignments we reviewed, the Ministry could not provide us with the details of how the estimated costs of consulting assignments were calculated. Therefore, we question the Ministry's ability to determine whether the prices quoted by the consultants were reasonable.

- We found that the Ministry generally did not evaluate the experience, qualifications, and price of more than one vendor when awarding consulting contracts. In addition, the Ministry permitted a supplier to gain a monopoly by continuously selecting that particular consultant to provide consulting services for alternative service delivery and awarding this consultant six successive contracts totalling over $3.2 million.
- The Ministry bypassed the required competitive acquisition process by selecting a consultant from the vendor-of-record list for alternative service delivery even though the consultant was to perform information systems work and was not on the approved vendor-of-record list to provide such services without competition. That consultant was paid $180,000 for information systems services.
- We noted three instances in our sample where the Ministry acquired consultants without tender and awarded them successive assignments. Each of the contracts was marginally less than the $25,000 tender limit, but the cumulative total exceeded this amount. These follow-on assignments were not unique or different from the work in the original contract, and the terms of reference for the new assignments did not change substantially.
- The Ministry exceeded the ceiling price of an agreement when it engaged a consultant at a cost of $600,000 to develop a business plan for alternative service delivery of the driver examination function and subsequently awarded the same consultant another contract for $450,000 for substantially the same service. We also question the value for money received by the taxpayer on these contracts totalling over $1 million since, at the request of the Ministry, the business case was not completed.
- We could not determine the propriety of ministry payments to consultants. For instance, the Ministry had altered a consultant's invoice totalling $234,000 by recording the amount as paid against another contract with the same consultant and indicating that the work was done during a different time period.
- The Ministry had not prepared the required written evaluations for any of the consulting engagements we reviewed. These evaluations are necessary to assess the quality of the work, whether value for money was obtained, and the suitability of the consultant for future assignments.

Recommendation

To ensure that consultants are engaged in a fair and competitive manner and that value for money is being received, the Ministry should:

- **properly justify the need for consultants' services and document estimated costs before consultants are hired;**
- **define the scope of the work and ensure contracts are signed before consultants begin their assignments;**
- **select consultants based on an evaluation of the experience, qualification, and price of more than one supplier as required by Management Board of Cabinet directives, even if suppliers are selected from the vendor-of-record list prepared by the Management Board Secretariat;**
- **not allow suppliers to gain a monopoly for any particular kind of work;**

- **help ensure fair competition by not awarding the same consultant successive agreements that cumulatively exceed the competition threshold of $25,000;**
- **enforce the ceiling of contracts when the terms and conditions of an agreement remain unchanged; and**
- **formally evaluate consultants when their assignments have been completed.**

Ministry Response

The Ministry agrees that consultants should be acquired in the most economic and equitable manner.

The Ministry is taking steps (beginning in July 2001) to improve its procurement and consultant evaluation processes in accordance with the Provincial Auditor's recommendations. These steps include:

- ***requiring staff to attend training on the improvements to the consultant procurement and evaluation processes;***
- ***monitoring consultant acquisition processes to ensure Management Board of Cabinet directives and guidelines are strictly adhered to prior to the actual acquisition of consulting services;***
- ***monitoring consultant performance/evaluations during the contract period and maintaining this information in a central repository for future reference.***

Private Issuers

The Ministry contracts with private issuing offices to renew vehicle plates and driver licences and provide other related services.

SERVICE AGREEMENTS AND ISSUER OPERATIONS

Currently, there are approximately 280 private issuers providing services under agreements with the Ministry. These agreements generally expire upon the death or the voluntary withdrawal of an issuer. We reviewed the service agreements with private issuers and their operations and noted the following concerns.

We found that the agreements between the Ministry and private issuers were not current. In many cases, agreements were signed at the time of the original appointment, which could be over 20 years ago, and therefore reflect the nature of the business at that time. The Ministry has made changes to the agreements through addenda, but we noted that this mechanism was not consistently applied. For example, in 1998, the Ministry introduced an addendum dealing with its Performance Management Program that set out clearly defined procedures, methods, operating requirements, performance standards, and responsibilities for issuers. However, the program was only made mandatory for new issuers. As of January 2001, over 100 private issuers were not participating in this program.

- We found that the Ministry generally did not evaluate the experience, qualifications, and price of more than one vendor when awarding consulting contracts. In addition, the Ministry permitted a supplier to gain a monopoly by continuously selecting that particular consultant to provide consulting services for alternative service delivery and awarding this consultant six successive contracts totalling over $3.2 million.
- The Ministry bypassed the required competitive acquisition process by selecting a consultant from the vendor-of-record list for alternative service delivery even though the consultant was to perform information systems work and was not on the approved vendor-of-record list to provide such services without competition. That consultant was paid $180,000 for information systems services.
- We noted three instances in our sample where the Ministry acquired consultants without tender and awarded them successive assignments. Each of the contracts was marginally less than the $25,000 tender limit, but the cumulative total exceeded this amount. These follow-on assignments were not unique or different from the work in the original contract, and the terms of reference for the new assignments did not change substantially.
- The Ministry exceeded the ceiling price of an agreement when it engaged a consultant at a cost of $600,000 to develop a business plan for alternative service delivery of the driver examination function and subsequently awarded the same consultant another contract for $450,000 for substantially the same service. We also question the value for money received by the taxpayer on these contracts totalling over $1 million since, at the request of the Ministry, the business case was not completed.
- We could not determine the propriety of ministry payments to consultants. For instance, the Ministry had altered a consultant's invoice totalling $234,000 by recording the amount as paid against another contract with the same consultant and indicating that the work was done during a different time period.
- The Ministry had not prepared the required written evaluations for any of the consulting engagements we reviewed. These evaluations are necessary to assess the quality of the work, whether value for money was obtained, and the suitability of the consultant for future assignments.

Recommendation

To ensure that consultants are engaged in a fair and competitive manner and that value for money is being received, the Ministry should:

- **properly justify the need for consultants' services and document estimated costs before consultants are hired;**
- **define the scope of the work and ensure contracts are signed before consultants begin their assignments;**
- **select consultants based on an evaluation of the experience, qualification, and price of more than one supplier as required by Management Board of Cabinet directives, even if suppliers are selected from the vendor-of-record list prepared by the Management Board Secretariat;**
- **not allow suppliers to gain a monopoly for any particular kind of work;**

- **help ensure fair competition by not awarding the same consultant successive agreements that cumulatively exceed the competition threshold of $25,000;**
- **enforce the ceiling of contracts when the terms and conditions of an agreement remain unchanged; and**
- **formally evaluate consultants when their assignments have been completed.**

Ministry Response

The Ministry agrees that consultants should be acquired in the most economic and equitable manner.

The Ministry is taking steps (beginning in July 2001) to improve its procurement and consultant evaluation processes in accordance with the Provincial Auditor's recommendations. These steps include:

- ***requiring staff to attend training on the improvements to the consultant procurement and evaluation processes;***
- ***monitoring consultant acquisition processes to ensure Management Board of Cabinet directives and guidelines are strictly adhered to prior to the actual acquisition of consulting services;***
- ***monitoring consultant performance/evaluations during the contract period and maintaining this information in a central repository for future reference.***

Private Issuers

The Ministry contracts with private issuing offices to renew vehicle plates and driver licences and provide other related services.

SERVICE AGREEMENTS AND ISSUER OPERATIONS

Currently, there are approximately 280 private issuers providing services under agreements with the Ministry. These agreements generally expire upon the death or the voluntary withdrawal of an issuer. We reviewed the service agreements with private issuers and their operations and noted the following concerns.

We found that the agreements between the Ministry and private issuers were not current. In many cases, agreements were signed at the time of the original appointment, which could be over 20 years ago, and therefore reflect the nature of the business at that time. The Ministry has made changes to the agreements through addenda, but we noted that this mechanism was not consistently applied. For example, in 1998, the Ministry introduced an addendum dealing with its Performance Management Program that set out clearly defined procedures, methods, operating requirements, performance standards, and responsibilities for issuers. However, the program was only made mandatory for new issuers. As of January 2001, over 100 private issuers were not participating in this program.

In addition, agreements with private issuers did not have clauses specifying remedial actions for improving performance, penalties for not following proper policies and procedures, or dispute resolution mechanisms. With the exception of the issuers that participate in the Performance Management Program, standard service agreements do not specify the roles and responsibilities of the issuers and the Ministry. Responses to our surveys indicated that because clear remedial actions were not specified in the agreements, it was difficult for the Ministry to impose penalties on or terminate agreements with issuers that were continuously poor performers.

For example, issuers are paid a commission based on the nature of the transaction, but we noted that some issuers increased their commission by processing several transactions separately instead of processing them as a single transaction. The Ministry produces a Multiple Transaction Processing Report to identify such occurrences. These occurrences are to be followed up on when an audit of the issuer is carried out. Although issuers are told to process transactions properly in these cases, some issuers continued to process the transactions so as to yield a high commission. The Ministry did not impose a penalty for this practice, nor did it change its procedures to prevent this occurrence.

In addition, we found that some issuers processed transactions and earned a commission even when all the proper documentation was not submitted. For example, an issuer refused to issue a 10-day trip permit because the applicant did not provide the required documentation. The applicant subsequently went to another issuer and received the permit without the required documentation. The Ministry, even though it was aware of the problem, did not impose a penalty on the second issuer for selling the permit without receipt of the required documentation.

Private issuers are responsible for the safeguarding and control of stock like vehicle plates, renewal stickers, and trip permits. Over half of the administrators that responded to our survey indicated that issuers did not reconcile stock as required by ministry policy. When an issuer reported that stock could not be located, the Ministry routinely recorded the stock as missing. If lost or stolen, stock can be used for fraudulent or illegal purposes. As well, issuers are to lock up their stock in a secure place, but some issuers were leaving stock at the front counter where it would be susceptible to theft. Lost stock in these cases included vehicle plates, renewal validation tags, and trip permits. In cases where the proper safeguards were not taken or when stock could not be located, the issuers were not being held accountable by the Ministry.

SELECTION AND MONITORING OF ISSUERS

The Ministry selects new issuers using a competitive process that evaluates candidates based on certain criteria, such as education, work experience, technical skills, communication and interpersonal skills, business and staff management experience, and customer-service orientation. Although the selection process was comprehensive and fair, it took up to six months, which significantly disrupted customer service in the affected area.

Inconsistencies in the training programs for new issuers were another cause of disruption to customer service. Some regional offices had well-developed training programs, including a one-week classroom session on operational procedures and instruction on the processing of transactions on computer terminals at an existing issuing office. Other regions had no established formal training. For instance, in the region with the largest turnover of issuers, informal training was primarily accomplished during the first few weeks of opening the office. Administrators from this region indicated that there was insufficient time to develop a formal training program mainly because of workload pressures.

The private issuing offices are monitored by the Ministry's Issuing Office Administrators (IOAs), who are responsible for dealing with the private issuing offices' day-to-day problems as well as performing a detailed audit of each private issuing office annually to ensure ministry revenue is remitted properly, policies are complied with, and stock is safeguarded. There is a risk that private issuers could sell items like validation tags and not inform the Ministry of the revenue collected. When an office is experiencing problems, the IOA's time is diverted from the normal monitoring and auditing functions. Responses to our survey indicated that, in some offices, the IOA had no time to adequately monitor the issuers because they were constantly dealing with higher-priority items, such as the selection and training of new issuers and problems of theft or fraud at issuing offices. Consequently, the required audit checks of other issuers were not performed, and systematic problems, such as poor record keeping, were not rectified on a timely basis. One issuer indicated to us that the required annual audit had not been performed at their office for at least three years.

Recommendation

To ensure that private issuers of the Road User Safety Program are properly managed, the Ministry should:

- **review the current agreements with issuers to incorporate the roles and responsibilities of both parties and include a non-performance clause, as well as make the Performance Management Program mandatory for all issuers;**
- **impose penalties on issuers that, contrary to ministry procedures, consistently process transactions to increase commissions;**
- **hold issuers financially responsible for lost stock when the proper safeguarding procedures have not been followed;**
- **hire new issuers on a timely basis to minimize disruptions to customer service; and**
- **ensure that resources to train new issuers and monitor existing ones are adequate and consistent throughout the province.**

Ministry Response

The Ministry agrees that a greater clarity of the roles and responsibilities of both the private issuers and the Ministry is required. To this end, the Ministry has undertaken the Private Issuer Project to review the current Memorandum of Agreement and develop a new contract that would provide for greater clarity of the roles and responsibilities. This is to be completed by Fall 2001. In addition, it is the Ministry's intention that all private issuers will be subject to a new and revised contract.

The Ministry agrees that private issuers should only be paid for commissions permitted by ministry procedures. The new contract will include penalties and will require the refund of any overpayment of commissions.

The private issuing offices are monitored by the Ministry's Issuing Office Administrators (IOAs), who are responsible for dealing with the private issuing offices' day-to-day problems as well as performing a detailed audit of each private issuing office annually to ensure ministry revenue is remitted properly, policies are complied with, and stock is safeguarded. There is a risk that private issuers could sell items like validation tags and not inform the Ministry of the revenue collected. When an office is experiencing problems, the IOA's time is diverted from the normal monitoring and auditing functions. Responses to our survey indicated that, in some offices, the IOA had no time to adequately monitor the issuers because they were constantly dealing with higher-priority items, such as the selection and training of new issuers and problems of theft or fraud at issuing offices. Consequently, the required audit checks of other issuers were not performed, and systematic problems, such as poor record keeping, were not rectified on a timely basis. One issuer indicated to us that the required annual audit had not been performed at their office for at least three years.

Recommendation

To ensure that private issuers of the Road User Safety Program are properly managed, the Ministry should:

- **review the current agreements with issuers to incorporate the roles and responsibilities of both parties and include a non-performance clause, as well as make the Performance Management Program mandatory for all issuers;**
- **impose penalties on issuers that, contrary to ministry procedures, consistently process transactions to increase commissions;**
- **hold issuers financially responsible for lost stock when the proper safeguarding procedures have not been followed;**
- **hire new issuers on a timely basis to minimize disruptions to customer service; and**
- **ensure that resources to train new issuers and monitor existing ones are adequate and consistent throughout the province.**

Ministry Response

The Ministry agrees that a greater clarity of the roles and responsibilities of both the private issuers and the Ministry is required. To this end, the Ministry has undertaken the Private Issuer Project to review the current Memorandum of Agreement and develop a new contract that would provide for greater clarity of the roles and responsibilities. This is to be completed by Fall 2001. In addition, it is the Ministry's intention that all private issuers will be subject to a new and revised contract.

The Ministry agrees that private issuers should only be paid for commissions permitted by ministry procedures. The new contract will include penalties and will require the refund of any overpayment of commissions.

The Ministry also agrees that issuers should be held responsible for lost stock when the proper safeguarding procedures have not been followed. The new contract will require that issuers pay for all stock in their possession and any lost stock and ensure that security provisions for lost stock are established.

The Ministry agrees that new private issuers should be hired on a timely basis to minimize disruptions to customer service. The Ministry will strengthen "Termination of Contract" requirements under the new contract to require more notice from issuers who are resigning. The Ministry is also in the process of designing an expedited issuer selection process. This process will be piloted in fall 2001.

The Ministry agrees that resources to train new private issuers and monitor existing issuers should be adequate and consistent throughout the province.

As part of the ongoing review of the Licensing Services Program, the Ministry is in the process of issuing a request for proposals for the delivery of selected products and services currently provided by ministry staff. One of these products and services is the auditing of issuers.

Delivery of the auditing function by a third-party service provider will enable a regular and timely focus on the monitoring of issuers, thereby allowing Issuing Office Administrators to place more effort on improved training of new issuers.

Revenue Collection and Control

Driver and vehicle registration fees from ministry and private issuers amounted to $894 million in revenue in the 2000/01 fiscal year. Private issuing agents are required to make daily deposits at the end of the business day or when the amount of cash on hand exceeds $15,000, and they must electronically submit a daily financial summary to the Ministry. All supporting documents for processed transactions are to be submitted on a weekly basis. The Ministry subsequently reconciles the daily financial summaries, the weekly submissions, and the bank deposits. The Ministry's Licensing Services office is responsible for the management of all funds collected through the driver and vehicle business, which includes ministry issuing offices, private issuing offices, kiosks, and driver examination centres. Based on our review, we noted that the Ministry's revenue collection and related controls needed improving, as illustrated by the following weaknesses we found:

- The reconciliation of transactions to deposits was not completed by the Ministry on a timely basis. We noted that, as of September 30, 2000, the Ministry's direct-deposit system contained over 1,550 deposits that could not be matched to the records of private issuers, with some dating back to April 1997. After reviewing these deposits, the Ministry still could not match approximately 1,200 of them to private-issuer statements to determine the nature of the discrepancies. In addition, the Ministry did not follow up on and resolve these unmatched deposits.

- The Ministry had accounts receivable totaling $13.5 million on March 31, 2001, which represented a 500% increase over 10 years ago. The major reason for the increase was an accumulation of 39,000 NSF (not sufficient funds) cheques—some dating back more than 15 years—that had been submitted to the Ministry to pay vehicle registration fees and outstanding municipal parking fines.
- There was no cross-referencing between the Ministry's vehicle registration system and the driver licensing system to help in the collection effort. In addition, when a private issuing office accepts a cheque that is subsequently returned as NSF, the Ministry does not hold the issuer accountable even when the issuer did not comply with the Ministry's cheque acceptance policy. In such cases, ministry policy is to charge the issuer for the amount of the NSF cheque, but this was seldom done, and the Ministry has been left with the task of collecting the outstanding amount.
- In response to the collection problem, the Licensing Services office ran a pilot project in November 1999 to collect outstanding amounts. It informed vehicle permit holders that their driver's licences would be cancelled if the Ministry did not receive payment. The pilot project was successful, as the Ministry collected approximately $148,000 in the first month. However, the project was stopped by the corporate office because it determined that the Ministry did not have the authority to cancel a driver's licence in such cases. In general, the Ministry's collection efforts have been insufficient, and write-offs have increased from $250,000 in 1998 to over $925,000 in 2000.
- When they renew their vehicle plates, vehicle owners must pay the Ministry in full for any outstanding municipal parking fines and NSF cheque amounts before a validation sticker is issued. We noted that the Ministry transferred funds to be remitted to the municipalities before determining whether payments by cheque had cleared the customer's bank. When a cheque is not honoured by a bank, the Ministry pursues the outstanding amount through its normal collection process. Given the large accumulation of NSF cheques, the Ministry is, in essence, subsidizing the payment of parking fines on behalf of Ontario drivers—especially if the account receivable is never collected and written off by the Ministry.

Recommendation

To help ensure that the Ministry receives all the funds it is entitled to from driver licensing and vehicle registration fees, it should:

- **fully reconcile the transactions carried out and deposits made by private issuing offices on a timely basis and follow up on any discrepancies;**
- **reinforce ministry cheque acceptance policies with private issuers and enforce measures to hold them accountable for any breach of policy;**
- **fully examine current collection procedures for NSF (not sufficient funds) cheques and consider policy and/or legislative changes to improve them; and**
- **transfer funds to be remitted to municipalities from the collection of parking fines only after cheques from vehicle owners have cleared the bank.**

The Ministry also agrees that issuers should be held responsible for lost stock when the proper safeguarding procedures have not been followed. The new contract will require that issuers pay for all stock in their possession and any lost stock and ensure that security provisions for lost stock are established.

The Ministry agrees that new private issuers should be hired on a timely basis to minimize disruptions to customer service. The Ministry will strengthen "Termination of Contract" requirements under the new contract to require more notice from issuers who are resigning. The Ministry is also in the process of designing an expedited issuer selection process. This process will be piloted in fall 2001.

The Ministry agrees that resources to train new private issuers and monitor existing issuers should be adequate and consistent throughout the province.

As part of the ongoing review of the Licensing Services Program, the Ministry is in the process of issuing a request for proposals for the delivery of selected products and services currently provided by ministry staff. One of these products and services is the auditing of issuers.

Delivery of the auditing function by a third-party service provider will enable a regular and timely focus on the monitoring of issuers, thereby allowing Issuing Office Administrators to place more effort on improved training of new issuers.

Revenue Collection and Control

Driver and vehicle registration fees from ministry and private issuers amounted to $894 million in revenue in the 2000/01 fiscal year. Private issuing agents are required to make daily deposits at the end of the business day or when the amount of cash on hand exceeds $15,000, and they must electronically submit a daily financial summary to the Ministry. All supporting documents for processed transactions are to be submitted on a weekly basis. The Ministry subsequently reconciles the daily financial summaries, the weekly submissions, and the bank deposits. The Ministry's Licensing Services office is responsible for the management of all funds collected through the driver and vehicle business, which includes ministry issuing offices, private issuing offices, kiosks, and driver examination centres. Based on our review, we noted that the Ministry's revenue collection and related controls needed improving, as illustrated by the following weaknesses we found:

- The reconciliation of transactions to deposits was not completed by the Ministry on a timely basis. We noted that, as of September 30, 2000, the Ministry's direct-deposit system contained over 1,550 deposits that could not be matched to the records of private issuers, with some dating back to April 1997. After reviewing these deposits, the Ministry still could not match approximately 1,200 of them to private-issuer statements to determine the nature of the discrepancies. In addition, the Ministry did not follow up on and resolve these unmatched deposits.

- The Ministry had accounts receivable totaling $13.5 million on March 31, 2001, which represented a 500% increase over 10 years ago. The major reason for the increase was an accumulation of 39,000 NSF (not sufficient funds) cheques—some dating back more than 15 years—that had been submitted to the Ministry to pay vehicle registration fees and outstanding municipal parking fines.
- There was no cross-referencing between the Ministry's vehicle registration system and the driver licensing system to help in the collection effort. In addition, when a private issuing office accepts a cheque that is subsequently returned as NSF, the Ministry does not hold the issuer accountable even when the issuer did not comply with the Ministry's cheque acceptance policy. In such cases, ministry policy is to charge the issuer for the amount of the NSF cheque, but this was seldom done, and the Ministry has been left with the task of collecting the outstanding amount.
- In response to the collection problem, the Licensing Services office ran a pilot project in November 1999 to collect outstanding amounts. It informed vehicle permit holders that their driver's licences would be cancelled if the Ministry did not receive payment. The pilot project was successful, as the Ministry collected approximately $148,000 in the first month. However, the project was stopped by the corporate office because it determined that the Ministry did not have the authority to cancel a driver's licence in such cases. In general, the Ministry's collection efforts have been insufficient, and write-offs have increased from $250,000 in 1998 to over $925,000 in 2000.
- When they renew their vehicle plates, vehicle owners must pay the Ministry in full for any outstanding municipal parking fines and NSF cheque amounts before a validation sticker is issued. We noted that the Ministry transferred funds to be remitted to the municipalities before determining whether payments by cheque had cleared the customer's bank. When a cheque is not honoured by a bank, the Ministry pursues the outstanding amount through its normal collection process. Given the large accumulation of NSF cheques, the Ministry is, in essence, subsidizing the payment of parking fines on behalf of Ontario drivers—especially if the account receivable is never collected and written off by the Ministry.

Recommendation

To help ensure that the Ministry receives all the funds it is entitled to from driver licensing and vehicle registration fees, it should:

- **fully reconcile the transactions carried out and deposits made by private issuing offices on a timely basis and follow up on any discrepancies;**
- **reinforce ministry cheque acceptance policies with private issuers and enforce measures to hold them accountable for any breach of policy;**
- **fully examine current collection procedures for NSF (not sufficient funds) cheques and consider policy and/or legislative changes to improve them; and**
- **transfer funds to be remitted to municipalities from the collection of parking fines only after cheques from vehicle owners have cleared the bank.**

Ministry Response

The Ministry agrees with the Provincial Auditor's findings and recommendations. The Ministry has taken action by undertaking a Revenue Control Review with its Internal Audit Branch. As part of this review, the Ministry has identified potential system and process changes to improve the timeliness of the reconciliation report.

Since fall 2000, the Ministry has been able to clear some of the older deposit discrepancies and has instituted a regular review to resolve older bank inquiries. As well, the Ministry is investigating a regulatory change to reduce the occurrence of NSF cheques.

Following a November 1999 pilot project in which the Ministry advised drivers that their licences could be cancelled for outstanding debt, the Ministry is developing a proposal to have legislation/regulations amended to allow it to cancel driver licences for any outstanding debt.

The Ministry is also looking to implement a number of strategies set out in an internal review of accounts receivable, including making system changes to identify previous debtors. We continue to pursue ways to reduce the level of outstanding debt and the subsequent write-offs.

The Ministry of Transportation has a number of partners in the collection of parking fines. After the police issue the tickets, municipalities first spend a minimum of 90 days trying to collect fines on their own behalf before passing the matter on to the Ministry of the Attorney General. The Ministry of Transportation then acts as a collection agent for the Ministry of the Attorney General. The Ministry will work with the Ministry of the Attorney General to ensure that only amounts for parking fines that have been fully paid are transferred to municipalities.

COMPLIANCE WITH POLICIES AND PROCEDURES

Driver Performance Monitoring and Intervention

The Ministry's Driver Improvement Office is responsible for the administration and delivery of programs that involve drivers and their fitness to drive. Driver performance is monitored using information from the Administrative Driver's Licence suspension program, the medical review program, and the demerit-point system. The Driver Improvement Office is responsible for suspending, cancelling, or reinstating driver's licences in accordance with these programs. We noted that the Ministry's initiatives in these areas needed improvement to ensure efficient and timely remedial action and licence suspensions.

In an attempt to reduce drinking and driving, the Administrative Driver's Licence Suspension (ADLS) program was introduced in December 1996. ADLS imposes an immediate 90-day roadside suspension of the driver's licence of any driver who has a blood alcohol level of more than 0.08%. The police officer immediately inputs the suspension on the Ministry's system, and

Ministry Response

The Ministry agrees with the Provincial Auditor's findings and recommendations. The Ministry has taken action by undertaking a Revenue Control Review with its Internal Audit Branch. As part of this review, the Ministry has identified potential system and process changes to improve the timeliness of the reconciliation report.

Since fall 2000, the Ministry has been able to clear some of the older deposit discrepancies and has instituted a regular review to resolve older bank inquiries. As well, the Ministry is investigating a regulatory change to reduce the occurrence of NSF cheques.

Following a November 1999 pilot project in which the Ministry advised drivers that their licences could be cancelled for outstanding debt, the Ministry is developing a proposal to have legislation/regulations amended to allow it to cancel driver licences for any outstanding debt.

The Ministry is also looking to implement a number of strategies set out in an internal review of accounts receivable, including making system changes to identify previous debtors. We continue to pursue ways to reduce the level of outstanding debt and the subsequent write-offs.

The Ministry of Transportation has a number of partners in the collection of parking fines. After the police issue the tickets, municipalities first spend a minimum of 90 days trying to collect fines on their own behalf before passing the matter on to the Ministry of the Attorney General. The Ministry of Transportation then acts as a collection agent for the Ministry of the Attorney General. The Ministry will work with the Ministry of the Attorney General to ensure that only amounts for parking fines that have been fully paid are transferred to municipalities.

COMPLIANCE WITH POLICIES AND PROCEDURES

Driver Performance Monitoring and Intervention

The Ministry's Driver Improvement Office is responsible for the administration and delivery of programs that involve drivers and their fitness to drive. Driver performance is monitored using information from the Administrative Driver's Licence suspension program, the medical review program, and the demerit-point system. The Driver Improvement Office is responsible for suspending, cancelling, or reinstating driver's licences in accordance with these programs. We noted that the Ministry's initiatives in these areas needed improvement to ensure efficient and timely remedial action and licence suspensions.

In an attempt to reduce drinking and driving, the Administrative Driver's Licence Suspension (ADLS) program was introduced in December 1996. ADLS imposes an immediate 90-day roadside suspension of the driver's licence of any driver who has a blood alcohol level of more than 0.08%. The police officer immediately inputs the suspension on the Ministry's system, and the suspension is confirmed when a notice is received by the Ministry from the police and entered into the ADLS tracking system. If the notice is not received within seven days, the Ministry rescinds the suspension. From the time the program was introduced to December 2000, over 400 drivers had their suspensions rescinded because the Ministry did not receive the notice to confirm it. This posed a safety concern because it allowed drunk drivers to have their licences reinstated before the required time and before any remedial action could be taken. We believe the seriousness of drunk-driving violations warrants appropriate follow-up by the Ministry when notice to confirm a suspension is not received.

Suspension of a driver's licence can also occur when a driver cannot meet a minimum standard of medical fitness to operate a motor vehicle. Medical practitioners and optometrists are required to report to the Ministry any individual who, in their opinion, is suffering from a condition that could make it dangerous for that person to drive. During the 1999/2000 fiscal year, the Ministry received approximately 150,000 medical reports. At the end of January 2001, the Ministry had a backlog of over 30,000 medical fitness reports that had not been processed. We noted approximately 950 cases to be resolved that dated back to 1997 and another 6,500 cases dating back to 1998. With such untimely processing of medical reports, the Ministry may have subjected the public to unnecessary risk, as some of these individuals could still be operating motor vehicles when they are not medically fit to do so.

The demerit-point system offers the Ministry another intervention tool to improve driver performance and behaviour. If a driver accumulates a designated number of demerit points within a two-year period, the Ministry may send the driver a warning letter, require that the driver attend an interview with a driver improvement counselor, or suspend the driver's licence. We noted that the Ministry had a backlog of cases where an interview was to be scheduled. In some cases drivers were not scheduled for the required interview because their demerit points had been automatically deducted after two years, bringing the total demerits below the threshold for intervention by the Ministry. The Ministry did not keep any statistics for the number of interviews cancelled, but staff we spoke with estimated that approximately one-third of the drivers that should have been interviewed were not interviewed because of the backlog. In this regard, the Ministry failed to take advantage of the opportunity to use intervention measures to improve driving behaviour and accordingly reduce the risk of motor vehicle accidents.

We found inconsistencies in the application of suspensions by driver improvement counsellors, who are responsible for remedial action for drivers who have been convicted of a criminal offence while operating a motor vehicle or who have accumulated a prescribed number of demerit points. For example, in 1999, one counsellor recommended suspension for one out of every six drivers interviewed, while another counsellor recommended suspensions for only one out of every 150 drivers interviewed. In response to our survey, counsellors indicated that training was inadequate and that a lack of regular training and direction from the Ministry led to inconsistencies in applying suspension standards.

In addition, over 85% of the counsellors who responded to our survey indicated that they did not have sufficient information to review cases where a driver was convicted of a criminal offence related to the operation of a motor vehicle. They had to make their recommendations based on the driver's description of the incident and the charge laid. Counsellors indicated that more information, such as a police accident report or court disposition, would be helpful in making more informed recommendations for licence suspensions.

Recommendation

To help reduce the risk of motor vehicle accidents and improve driver performance, the Ministry should:

- **ensure that drunk-driver suspensions are only rescinded when such action is appropriately justified;**
- **review and take action on reports of drivers who do not meet the minimum medical fitness standards on a more timely basis;**
- **ensure that appropriate intervention for drivers who have accumulated excessive demerit points is undertaken on a timely basis;**
- **develop standard training programs for driver improvement counsellors; and**
- **ensure that counsellors have full information for making informed recommendations on potential licence suspensions and other remedial actions.**

Ministry Response

The Ministry recognizes that even one impaired driver who is allowed to drive is too many. Since 1996, the Ministry has successfully suspended 91,853 licences because of impaired driving. Of these, 400 (0.4%) were rescinded due to the Driver Improvement Office not receiving the Notice to Registrar from the police. The Ministry is working with its policing partners to find ways to ensure that paperwork is received from them in the required time frames.

As an active member of the Inter-ministerial Drinking and Driving Monitoring and Evaluation Committee, the Ministry is continuing to monitor and evaluate the Administrative Driver's Licence Suspension Program. The Committee includes representatives from the ministries of the Attorney General and Solicitor General and the Ontario Provincial Police, Toronto Police Services, and the Ontario Association of Chiefs of Police.

The Ministry agrees that reports of drivers who do not meet the minimum medical fitness standards should be reviewed on a more timely basis. The Ministry has ensured that high-priority cases are currently processed within three to eight weeks. This includes suspension of driver licences when medical reports indicate a high risk to road safety and reinstatement when reports indicate medical standards have been met.

In addition, significant improvements to productivity have been made due to increased staff levels, training, telephone and case-management technology upgrades, and re-engineering of workflow processes. These improvements have resulted in an almost 50% increase in the number of cases processed. There are no longer any 1997 cases waiting to be processed.

The Ministry is working with the Ontario Medical Association to develop an improved medical fitness form to make it easier for physicians to report to the

Ministry in a prompt and consistent fashion, thereby reducing the number of follow-up inquiries by ministry staff.

The Ministry agrees that demerit-point interviews are important to modify the behaviour of drivers who have committed serious safety infractions. The Ministry has recently reviewed this area and will implement the Provincial Auditor's recommendation.

The Ministry agrees that a standard training program for driver improvement counsellors is needed and is therefore developing a standard orientation and training plan. The Ministry has run a province-wide training program for regional driver improvement staff on medical suspension interviews.

The Ministry agrees that it would be useful for driver improvement counsellors to have access to full information on a driver's case. However, this detailed information is not always available from the courts on a timely basis. The Ministry will work with the ministries of the Attorney General and Solicitor General to improve the accessibility and timeliness of this information.

Disabled Person's Parking Permits

The Ministry issues disabled person's parking permits to eligible applicants who are unable to walk unassisted for more than 200 metres in eight minutes or less without serious difficulty or danger to their safety or health. The applicant's condition must be certified by a medical practitioner. The Ministry annually processes approximately 60,000 new applications and 42,000 renewals. We noted the following weaknesses in the Ministry's processing and monitoring of these parking permits:

- The Ministry does not adequately scrutinize the application forms received from the applicants. There are no checks to ensure that the medical practitioner who certified the applicant's disability is a member of the medical profession. This results in the risk that individuals who are not entitled to a permit submit applications to the Ministry and obtain a parking permit.
- The only medical criterion that is required to obtain a parking permit is the applicant's ability to walk a certain distance within a specified time. However, the Ministry does not require certification that this disability does not impair the person's ability to safely operate a motor vehicle, as is done in other jurisdictions.
- Once a parking permit is issued for a permanent disability, it is automatically renewed every five years without further scrutiny. We noted that when renewing a permit, the Ministry was not cross-checking with its own driver's licence database to see if the person was still living, nor was it checking with the Registrar General Branch of the Ministry of Consumer and Business Services, where the province's deaths are recorded. As a result, police forces frequently had to deal with disabled person's parking permits that were inappropriately being used by friends and family members of deceased permit holders.

Ministry in a prompt and consistent fashion, thereby reducing the number of follow-up inquiries by ministry staff.

The Ministry agrees that demerit-point interviews are important to modify the behaviour of drivers who have committed serious safety infractions. The Ministry has recently reviewed this area and will implement the Provincial Auditor's recommendation.

The Ministry agrees that a standard training program for driver improvement counsellors is needed and is therefore developing a standard orientation and training plan. The Ministry has run a province-wide training program for regional driver improvement staff on medical suspension interviews.

The Ministry agrees that it would be useful for driver improvement counsellors to have access to full information on a driver's case. However, this detailed information is not always available from the courts on a timely basis. The Ministry will work with the ministries of the Attorney General and Solicitor General to improve the accessibility and timeliness of this information.

Disabled Person's Parking Permits

The Ministry issues disabled person's parking permits to eligible applicants who are unable to walk unassisted for more than 200 metres in eight minutes or less without serious difficulty or danger to their safety or health. The applicant's condition must be certified by a medical practitioner. The Ministry annually processes approximately 60,000 new applications and 42,000 renewals. We noted the following weaknesses in the Ministry's processing and monitoring of these parking permits:

- The Ministry does not adequately scrutinize the application forms received from the applicants. There are no checks to ensure that the medical practitioner who certified the applicant's disability is a member of the medical profession. This results in the risk that individuals who are not entitled to a permit submit applications to the Ministry and obtain a parking permit.
- The only medical criterion that is required to obtain a parking permit is the applicant's ability to walk a certain distance within a specified time. However, the Ministry does not require certification that this disability does not impair the person's ability to safely operate a motor vehicle, as is done in other jurisdictions.
- Once a parking permit is issued for a permanent disability, it is automatically renewed every five years without further scrutiny. We noted that when renewing a permit, the Ministry was not cross-checking with its own driver's licence database to see if the person was still living, nor was it checking with the Registrar General Branch of the Ministry of Consumer and Business Services, where the province's deaths are recorded. As a result, police forces frequently had to deal with disabled person's parking permits that were inappropriately being used by friends and family members of deceased permit holders.

Recommendation

To ensure that only persons who are entitled to disabled person's parking permits receive them, the Ministry should:

- **verify that the person attesting to the applicant's medical condition is a member of the medical profession;**
- **consider requiring certification that the applicant's disability does not impair the person's ability to safely operate a vehicle; and**
- **consider verifying that the disabled parking permit holder is still entitled to a permit when the application for renewal is received.**

Ministry Response

The Ministry agrees that there are opportunities to strengthen eligibility criteria to ensure that permit holders are entitled to a disabled person's parking permit.

Applications will be verified to ensure that the information has been fully completed by a physician, chiropractor, osteopathic physician, physiotherapist, or occupation therapist, and includes the professional association the practitioner is registered with.

In addition, the Ministry is undertaking a comprehensive review of the Disabled Person Parking Permit program. The Ministry is reviewing with a number of stakeholders all aspects of the existing program, including:

- ***approaches for ensuring the eligibility of applicants;***
- ***eligibility criteria for obtaining a permit;***
- ***medical re-certification at five-year renewals;***
- ***the scrutiny of applications;***
- ***the design/features of the permit;***
- ***penalties for permit misuse; and***
- ***communications to permit holders and the general public.***

This review is a component of the Ministry of Citizenship's Disability Strategy. The Ministry of Citizenship is planning to include in its **Ontarians with Disabilities Act** ***an increased fine (and possibly new penalties) for misuse/fraud of a disabled person's parking permit.***

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

Road Safety

The goal of the Road User Safety Program is to help make Ontario's roads safer for all road users. This is accomplished through a combination of education, legislation, enforcement, and initiatives directed at identifying high-risk causes for accidents and taking action to mitigate these risks.

To demonstrate the effectiveness of its initiatives, the Ministry needs to provide the public with current information, measure their success, and take corrective action where objectives are not met. During our audit, we noted the following deficiencies.

The Ministry is required by the *Highway Traffic Act* to annually report various characteristics of motor vehicle accidents and make recommendations for the prevention of motor vehicle accidents. The report, titled the *Ontario Road Safety Annual Report*, is intended to help in the design of education and intervention programs that lead to corrective action. However, the last report issued by the Ministry was the 1997 Annual Report, and it contained no recommendations for the prevention of motor vehicle accidents. In addition, the Ministry was reporting results in its 2000/01 Business Plan that were based on this outdated 1997 information. Therefore, the Ministry was reporting results related to safety issues based on outdated and incomplete information.

One of the Ministry's major road safety programs, implemented in 1994, is the Graduated Licensing System. The System's main objective is to help reduce the risk of collision for new drivers by requiring that they progress through a two-step licensing system (with two road tests) before granting them a full licence. In 1998, the Ministry carried out an interim evaluation of the new system and determined that the collision rate for novice drivers had decreased. However, the evaluation also determined that novice drivers who had taken an approved driver education course, and thereby had the one-year interval between the written test and their first road test reduced by four months, had a collision rate that was 45% higher than other novice drivers. The 1998 report indicated that further study of this situation was required. In this regard, we noted that a 1996 federal report, based on a study of several jurisdictions, recommended that governments not shorten the required waiting period for a road test in their graduated licensing systems for drivers having undergone driver education. At the completion of our audit in February 2001, the Ministry had neither reviewed nor taken action on the effects of driver-training time reductions on road safety.

Another aspect of road safety is ensuring that drivers are properly trained and tested to operate a motor vehicle. When the Graduated Licensing System was first introduced in 1994, the Ministry carried out a public education program that involved presentations to high-school students and road safety groups. Since then, there have been no ministry education programs for new drivers entering the system other than information contained in the *Driver's Handbook*, which informs student drivers about the rules of the road. Ministry staff responding to our survey expressed concerns that many novice drivers are not fully aware of these rules and are unprepared for their road tests. Moreover, the *Driver's Handbook* was last updated in May 1997 and does not reflect legislative changes made since then.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

In 1996, the Ministry had carried out a study of the collision risk for senior drivers. At that time, senior drivers over 80 years of age were required to take annual vision, knowledge, and road tests. The ministry study indicated that if the amount of driving was taken into account, senior drivers had collision rates that were much higher than those observed for middle-aged drivers. While the Ministry determined there was no clear safety benefit associated with mandatory, age-based road testing, it introduced a new program for senior drivers that required seniors to take vision and knowledge tests biannually, attend classroom instruction, and have a driver record review. Only in some cases would a senior driver be asked to take a road test. The Ministry was to evaluate this new program to assess its ability to identify potentially unsafe drivers. However, at the completion of our audit in February 2001, no evaluation had been done.

Recommendation

To improve the effectiveness of the Road User Safety Program in making Ontario roads safer, the Ministry should:

- **include the required recommendations for the prevention of motor vehicle accidents in its *Ontario Road Safety Annual Report* and ensure the report is prepared on a timely basis;**
- **review the driver-training time reductions within the Graduated Licensing System, update its *Driver's Handbook*, assess the merits of public education programs for new drivers, and implement any necessary changes to help reduce the collision risks of novice drivers; and**
- **carry out the planned study of its program for senior drivers to assess its effectiveness in identifying potentially unsafe drivers.**

Ministry Response

The Ministry is committed to continuously improving its processes and reporting mechanisms. The Ministry will prepare the* Ontario Road Safety Annual Report *in a timely manner and the Ministry's Business Plan will reflect the most up-to-date figures and include recommendations for the prevention of motor vehicle accidents.

The Ministry agrees with the recommendation to update the* Driver's Handbook *to ensure that any changes to legislation, policies, and procedures are incorporated and that advice on driving behaviour is incorporated promptly.

The Ministry is strongly committed to continuously improving its performance measures and program-level performance reporting.

Customer Service

The Ministry provides many services to the public through its Road User Safety Program, including issuing new and renewal driver's licences, scheduling and delivering road tests, In 1996, the Ministry had carried out a study of the collision risk for senior drivers. At that time, senior drivers over 80 years of age were required to take annual vision, knowledge, and road tests. The ministry study indicated that if the amount of driving was taken into account, senior drivers had collision rates that were much higher than those observed for middle-aged drivers. While the Ministry determined there was no clear safety benefit associated with mandatory, age-based road testing, it introduced a new program for senior drivers that required seniors to take vision and knowledge tests biannually, attend classroom instruction, and have a driver record review. Only in some cases would a senior driver be asked to take a road test. The Ministry was to evaluate this new program to assess its ability to identify potentially unsafe drivers. However, at the completion of our audit in February 2001, no evaluation had been done.

Recommendation

To improve the effectiveness of the Road User Safety Program in making Ontario roads safer, the Ministry should:

- **include the required recommendations for the prevention of motor vehicle accidents in its *Ontario Road Safety Annual Report* and ensure the report is prepared on a timely basis;**
- **review the driver-training time reductions within the Graduated Licensing System, update its *Driver's Handbook*, assess the merits of public education programs for new drivers, and implement any necessary changes to help reduce the collision risks of novice drivers; and**
- **carry out the planned study of its program for senior drivers to assess its effectiveness in identifying potentially unsafe drivers.**

Ministry Response

The Ministry is committed to continuously improving its processes and reporting mechanisms. The Ministry will prepare the* Ontario Road Safety Annual Report *in a timely manner and the Ministry's Business Plan will reflect the most up-to-date figures and include recommendations for the prevention of motor vehicle accidents.

The Ministry agrees with the recommendation to update the* Driver's Handbook *to ensure that any changes to legislation, policies, and procedures are incorporated and that advice on driving behaviour is incorporated promptly.

The Ministry is strongly committed to continuously improving its performance measures and program-level performance reporting.

Customer Service

The Ministry provides many services to the public through its Road User Safety Program, including issuing new and renewal driver's licences, scheduling and delivering road tests, registering motor vehicles, renewing validation tags, undertaking public education programs, and responding to inquiries made in person or by telephone.

During our 1994 audit of the driver licensing and control function, the Ministry acknowledged that the level of customer service it was providing was less than satisfactory. Since that time, the Ministry has undertaken a number of initiatives, including developing performance indicators to measure and track customer service and implementing a management process to help ensure that customer-service problems are adequately addressed.

In December 2000, customer satisfaction ratings measured by the Ministry indicated that the public was 95% satisfied with self-service kiosks. However, customer comment cards completed at ministry offices, driver examination centres, and private issuers indicated that 49% of respondents were generally dissatisfied with customer service for the following reasons: lengthy waiting times, not receiving service in a prompt and efficient manner, and staff not being courteous and helpful. Although the Ministry has attempted to improve customer service through various initiatives, we noted areas that still require improvement, as described below.

The comment card tracking system that the Ministry implemented in June 1999 was to standardize and streamline the process for handling customer complaints. This system includes a database of customer-service issues identified through customer comment cards. From this database, a repository of best practices was to be established to share successes with other sections of the Ministry and to improve customer service. We noted, however, that the Ministry had not established the repository of best practices, nor was it using the information gathered from the comment cards to improve customer service.

Customer complaints are sent to the appropriate regional office for investigation and resolution. We found that the Ministry did not analyze the information or provide feedback that would enable centres to implement improvements or take corrective action. Specifically, no trend analysis of customer feedback was performed to determine if policy or program changes were effective or necessary, and complaints were not detailed by month or quarter to determine ongoing trends in customer-service satisfaction. The last report produced by the Ministry with respect to comment cards covered the period from June to December 1999.

A critical indicator of efficiency and customer service is the amount of time customers must wait for service, which is also a key performance indicator. In fact, waiting time is the primary measure of customer service in many other jurisdictions. Of the customer comments collected by the Ministry, 91% indicated that waiting time was the main reason for dissatisfaction with ministry customer service. Nevertheless, the Ministry had not established an internal performance target with respect to acceptable waiting time for over-the-counter services. In addition, the Ministry had not evaluated the factors that could influence waiting time, such as the quality of staff training, number of customers, the number of available staff, and even the time of year. The Ministry left local offices to deal with lengthy waiting times on their own. Some offices tried to improve service by using an electronic queuing system or asking customers to visit an information counter first to ensure that they had all the documentation necessary to process the transaction.

Recommendation

To improve the customer service provided under its Road User Safety Program, the Ministry should:

- **analyze customer comments for common concerns;**
- **establish a repository of best practices used by offices to address such concerns; and**
- **establish internal performance benchmarks with respect to waiting times for over-the-counter services and periodically report on performance by office and region against established benchmarks.**

Ministry Response

The Ministry agrees that analysis of customer comments is important to assist management in determining common concerns. However, the Ministry feels that its statistical customer-service survey, which is run on an ongoing basis, is a more valid measure of customer satisfaction than the customer comment cards, which are only available on request. The ongoing customer-service survey results from private issuing offices indicate an 87% overall customer satisfaction rating.

The Ministry agrees with the recommendation that a repository of best practices that offices use to address customer concerns be established. There is currently an informal method in place, and a formal repository of best practices is under development.

The Ministry agrees with the need to establish internal performance benchmarks with respect to waiting times for over-the-counter services and to periodically report on performance by office and region against established benchmarks. The Ministry has initiated a study to establish benchmarks and best practices to measure customer-service satisfaction. The Ministry notes that the customer satisfaction rating with length of wait time has increased by 23% over the last two years to 69%.

Effectiveness Measures

Effective performance measurement and reporting gives the Legislature the necessary information for making informed funding and policy decisions regarding the administration of a program. The Ministry's publicly available business plans contain performance measures and outcomes for the Road User Safety Program. The Ministry is to report on its performance in its *Ontario Road Safety Annual Report*, which provides statistical information on various characteristics of motor vehicle collisions in the province, such as the severity of injuries, the age of the drivers, accident locations, weather conditions at the time of accidents, and any known causes for collisions.

In the Ministry's business plans from the 1998/99, 1999/2000, and 2000/01 fiscal years, the primary goal or outcome for the Road User Safety Program was "safer Ontario road users and drivers." The program's performance goal was for Ontario to rank as one of the 10 safest jurisdictions in North America as measured by its rate of collision fatalities per 10,000 drivers. However, the Ministry acknowledges that the achievement of this goal is not within the direct control of the Road User Safety Program, which does not exercise a reasonable degree of influence on the collision fatality rate. Other parties can influence the rate, including the Ministry of the Attorney General, the Ministry of the Solicitor General, and the Ontario Provincial Police, as can other factors, including the economy, weather conditions, and the way cars are manufactured. Consequently, this performance measure is to be applied at a higher, ministry or government-wide, level, rather than being the exclusive responsibility of the Road User Safety Program.

The Ministry has developed a number of indicators to measure and report on its initiatives relating to alcohol impairment, seat-belt usage, aggressive driving, repeat offenders, and fatalities involving novice drivers. However, the performance measures the Ministry was using at the time of our audit were based on activities, such as the percentage of drivers stopped at random sobriety checkpoints who had been drinking. These measures were not linked to the Program's primary goal. Consequently, program management was not being held directly accountable for its initiatives. To demonstrate whether its initiatives were effective, the Ministry needed to link its activity measures to the Program's primary goal of "safer Ontario road users and drivers."

Recommendation

To measure the effectiveness of the Road User Safety Program and its initiatives to achieve safer roads, the Ministry should:

- **develop goals or outcomes over which the Program has a reasonable degree of influence; and**
- **develop performance measures that demonstrate how program initiatives contribute to the Program's goals or outcomes.**

Ministry Response

The Ministry is strongly committed to continuously improving its performance measures and program-level performance reporting.

The Ministry will continue to develop performance measures that focus on effectiveness indicators that are results oriented and demonstrate the value and benefits of the Road User Safety Program.

Recommendation

To improve the customer service provided under its Road User Safety Program, the Ministry should:

- **analyze customer comments for common concerns;**
- **establish a repository of best practices used by offices to address such concerns; and**
- **establish internal performance benchmarks with respect to waiting times for over-the-counter services and periodically report on performance by office and region against established benchmarks.**

Ministry Response

The Ministry agrees that analysis of customer comments is important to assist management in determining common concerns. However, the Ministry feels that its statistical customer-service survey, which is run on an ongoing basis, is a more valid measure of customer satisfaction than the customer comment cards, which are only available on request. The ongoing customer-service survey results from private issuing offices indicate an 87% overall customer satisfaction rating.

The Ministry agrees with the recommendation that a repository of best practices that offices use to address customer concerns be established. There is currently an informal method in place, and a formal repository of best practices is under development.

The Ministry agrees with the need to establish internal performance benchmarks with respect to waiting times for over-the-counter services and to periodically report on performance by office and region against established benchmarks. The Ministry has initiated a study to establish benchmarks and best practices to measure customer-service satisfaction. The Ministry notes that the customer satisfaction rating with length of wait time has increased by 23% over the last two years to 69%.

Effectiveness Measures

Effective performance measurement and reporting gives the Legislature the necessary information for making informed funding and policy decisions regarding the administration of a program. The Ministry's publicly available business plans contain performance measures and outcomes for the Road User Safety Program. The Ministry is to report on its performance in its *Ontario Road Safety Annual Report*, which provides statistical information on various characteristics of motor vehicle collisions in the province, such as the severity of injuries, the age of the drivers, accident locations, weather conditions at the time of accidents, and any known causes for collisions.

In the Ministry's business plans from the 1998/99, 1999/2000, and 2000/01 fiscal years, the primary goal or outcome for the Road User Safety Program was "safer Ontario road users and drivers." The program's performance goal was for Ontario to rank as one of the 10 safest jurisdictions in North America as measured by its rate of collision fatalities per 10,000 drivers. However, the Ministry acknowledges that the achievement of this goal is not within the direct control of the Road User Safety Program, which does not exercise a reasonable degree of influence on the collision fatality rate. Other parties can influence the rate, including the Ministry of the Attorney General, the Ministry of the Solicitor General, and the Ontario Provincial Police, as can other factors, including the economy, weather conditions, and the way cars are manufactured. Consequently, this performance measure is to be applied at a higher, ministry or government-wide, level, rather than being the exclusive responsibility of the Road User Safety Program.

The Ministry has developed a number of indicators to measure and report on its initiatives relating to alcohol impairment, seat-belt usage, aggressive driving, repeat offenders, and fatalities involving novice drivers. However, the performance measures the Ministry was using at the time of our audit were based on activities, such as the percentage of drivers stopped at random sobriety checkpoints who had been drinking. These measures were not linked to the Program's primary goal. Consequently, program management was not being held directly accountable for its initiatives. To demonstrate whether its initiatives were effective, the Ministry needed to link its activity measures to the Program's primary goal of "safer Ontario road users and drivers."

Recommendation

To measure the effectiveness of the Road User Safety Program and its initiatives to achieve safer roads, the Ministry should:

- **develop goals or outcomes over which the Program has a reasonable degree of influence; and**
- **develop performance measures that demonstrate how program initiatives contribute to the Program's goals or outcomes.**

Ministry Response

The Ministry is strongly committed to continuously improving its performance measures and program-level performance reporting.

The Ministry will continue to develop performance measures that focus on effectiveness indicators that are results oriented and demonstrate the value and benefits of the Road User Safety Program.

CHAPTER FOUR

Follow-up of Recommendations in the *1999 Annual Report*

It is our practice to make specific recommendations in our value-for-money (VFM) audit reports and ask ministries and agencies to provide a written commitment to take corrective action for publication in Chapter Three of our Annual Report. Two years after we publish the recommendations and related responses, we follow up on the status of actions taken by ministries and agencies with respect to our recommendations.

Chapter Four provides some background on the value-for-money audits reported on in Chapter Three of our 1999 Annual Report and describes the current status of corrective action that has been taken to address our recommendations since that time. The sections in this chapter consist of follow-up reviews.

Our follow-up reviews are planned and conducted to provide a moderate level of assurance on the extent and adequacy of corrective actions taken by ministries or agencies. The reviews consist primarily of inquiries and discussions with management; analyses of information they provide; and, where deemed appropriate, limited examination and testing of systems, procedures, and transactions. This is not an audit, and accordingly, we cannot provide a high level of assurance that the corrective actions described have been implemented effectively to fully resolve noted problems. Nor can these reviews be relied upon to identify new issues or concerns that need to be acted upon. However, the results of the corrective actions taken or planned will be more fully examined and reported on through future audits.

Overall, we concluded that a number of our 1999 recommendations appear to have been fully or substantially acted upon. However, there are many recommendations where action remains to be taken or is ongoing.

MINISTRY OF THE ATTORNEY GENERAL

4.01–Family Responsibility Office

(Follow-up to VFM Section 3.01, *1999 Annual Report*)

BACKGROUND

The Family Responsibility Office (the Office), formerly the Family Support Plan, is responsible for enforcing support orders. A support order is an order issued by the court or an agreement between two parties for the payment of money towards the support or maintenance of a child and/or spouse. The Office's responsibility includes collecting and disbursing support payments. All Ontario court orders made since July 1987 are automatically filed with the Office. In the cases of separation agreements and pre-July 1987 court orders, recipients of support payments may voluntarily elect to file with the Office.

For the 1998/99 fiscal year, the Office had 340 staff and incurred expenditures of approximately $28.2 million. Over $500 million was collected and disbursed during the year. As of March 31, 1999, the Office had over 170,000 registered cases. At that time, approximately 128,000 (75%) of the active cases registered with the Office were in arrears. The arrears totalled $1.2 billion.

We concluded in 1999 that, when payors went into arrears, the Office did not have a satisfactory system for initiating contact and taking appropriate enforcement action. Where enforcement action was taken, we found gaps of more than six months between actions and, when unsuccessful, frequent failure on the part of the Office to pursue more aggressive action.

The Office's policy of issue management, under which the responsibility of enforcement officers was limited to the issues on which they worked, resulted in inefficiencies in case management. We noted many examples where more than three enforcement officers had worked on the same case; in one instance, 11 different offices were involved in one case over a span of two years.

The Office had spent over $2.3 million on a computer-services consulting contract relating to the installation of a front-end interface to the existing computer system. However, these technology enhancements did not address our 1994 audit findings relating to the computer-system performance problems. According to the enforcement officers surveyed during this audit, the computer system was slow and often unavailable.

In addition, with respect to the acquisition of the computer consulting-services contract, we found that the Office had not complied with significant aspects of the relevant Management Board of Cabinet directive and could not demonstrate that the project was managed with due regard for economy.

Accordingly, we made recommendations for improving the Office's systems and procedures and the management of its resources.

In April 2001, the Ministry of Community and Social Services assumed responsibility for administration of the program.

CURRENT STATUS OF RECOMMENDATIONS

We concluded that continuing action was required to implement most of our recommendations. For some recommendations, the Office had not taken substantive action. The Office indicated that further substantial progress in addressing many of our recommendations was dependent on improvements to the Office's business processes and information-technology systems, which were under review at the time of our follow-up.

ENFORCING SUPPORT ORDERS

Enforcement Actions

Recommendation

To help ensure recipients are getting the support payments to which they are entitled, the Ministry should improve its procedures for enforcing support orders. Specifically, it should:

- *initiate contact with payors as soon as payments are in arrears; and*
- *take more timely and aggressive enforcement actions.*

Current Status

The Office indicated that the following steps have been taken to improve enforcement processes:

- Letters are written to delinquent payors when their accounts are 30 days in arrears. As part of this follow-up process, responses from delinquent payors are requested within approximately 30 days. A monthly report has been programmed to list accounts that are 60 days overdue. These reports are then assigned to a special team of client service associates (CSAs) to initiate some kind of enforcement action.
- In cases where a delinquent payor's driver's licence was suspended as an enforcement alternative and the payor continues to be in arrears, default hearings are scheduled.
- A process was initiated to review cases where amounts in arrears fall within specified dollar ranges. For example, over the winter of 2000–01 and the spring of 2001, reviews were conducted of all cases with arrears of over $100,000, $75,000, and $50,000, respectively. Depending on the circumstances of each case, CSAs either initiated enforcement actions or updated case information. Some cases were closed; some were sent to other jurisdictions for enforcement; in yet other cases, arrears were adjusted based on a review of the case-file information. In some cases, new information was received, such as amended court orders that changed the amount of arrears that could be enforced or notification that direct payments had been made between the parties.

In addition, the Office indicated that the Enhanced Collection Agency Project, involving four private collection agencies, was to proceed in the fall of 2001. The enforcement focus of this project is to be on cases where no payment activity has occurred for six months or more.

As part of its *2001/02 Business Plan*, the Ministry has established a target of full or partial compliance in an average of 71% of the cases managed by the Office. This is a new performance target for 2001/02. The old target of 61% included in the calculation cases that were not enforceable by the Office, such as cases where: the payor was in jail for an extended period of time; enforcement has been stayed by court order; or the support payor or recipient could not be located. For 2001/02, the unenforceable cases are to be excluded from the compliance calculation.

Interest

Recommendation

To help ensure compliance with support orders and to encourage prompt payment from payors, the Ministry should compute and charge interest on arrears for those cases where the court orders stipulate that interest is applicable.

Current Status

The Office maintained the position that the calculation of interest is the responsibility of the recipient who registered with the program and that the existing computer system cannot support the calculation. The Ministry has added information to its brochure flagging the recipient's responsibility to calculate and report interest and has added instructions on the calculation of interest to the recipient filing package.

The Ministry's internal auditors recommended that the Office ensure that the calculation of interest is considered as a programming option when a new computer system is developed. We concurred with that recommendation. The Office responded that this recommendation would be considered as part of the development of Internet- and other electronic-based tools that would help clients access information about the Office or their cases.

Account Information

Recommendation

To ensure accurate, up-to-date records are kept on payors' and recipients' accounts, the Ministry should establish a process to periodically verify with payors and recipients important information pertaining to their accounts.

Current Status

A payor or recipient may request a Director's Statement of Account at any time during the life of the case file. Effective April 1, 2000, the statement is provided free of charge upon the first request, and each statement requested thereafter costs $25.

The Standing Committee on Public Accounts made the following recommendation in its November 2000 report, which was based on hearings conducted on February 16, 2000 on our audit of the Office: "The Family Responsibility Office should provide payors and recipients with a history of their financial relations (Schedule A) with the Office upon request on an annual basis, free of charge." The Office has not taken substantive action to implement the Committee's recommendation.

In addition, a process has not been established to periodically verify with payors and recipients important information pertaining to their accounts. However, the Office expected that its initiatives to pursue enforcement actions in a more timely manner and to better educate clients would encourage payors and recipients to fulfill their obligations to provide the Office with up-to-date and accurate information on their cases.

Case Management

Recommendation

To be more effective in collecting support payments and to ensure better accountability and efficiency, the Ministry should review its current approach to deploying enforcement officers and take appropriate action to correct any deficiencies.

Current Status

According to the Office, its existing computer system was not adequate to meet the Office's current business requirements and high volumes. In the fall of 2000, the Office examined a case-management computer system in use in British Columbia for possible adaptation for the Office.

In January 2001, a proposal for studying the feasibility of a case-management system was presented to Management Board for approval. Management Board subsequently approved a one-time expenditure increase of $525,000 for the Office to explore the merits and staff impacts of moving to a case-management delivery model. The Board also directed the Ministry to include in any future requests related to this initiative an implementation plan that spells out linkages to and plans for integrating with the Ministry's other information-management systems.

Management Information

Recommendation

To ensure timely, appropriate enforcement action is taken, the Ministry should improve the quality of management information and make better use of the available information.

Current Status

According to the Office, a review of the existing management reports determined that 11 out of 16 reports were not useful. These have either been discontinued or were under further review. Management was in the process of developing new reports that were to be used to monitor enforcement activity. As of March 2001, six new reports were in the evaluation phase. However, the Office indicated that developing new reports on a timely basis using the current computer system was difficult due to the outdated programming language in use.

Computer System

Recommendation

To prevent disruption of services, the Ministry should take steps to improve the performance and availability of its computer system, including:

- *correcting the problems that have caused the system to be slow or unavailable; and*
- *developing and implementing a data archive function.*

Current Status

Efforts to improve computer-system performance have met with limited success. Notwithstanding the upgrading of document-imaging software and the refreshment of the database server and desktop computers to help improve the stability of the system, performance issues remain. According to the Ministry, accelerated efforts are being made to explore new options for service delivery, including an analysis of existing and new information technology requirements.

Since January 2001, a staff systems person has been assigned the task of developing a data-archiving function. When the function is completed, over one-third of the cases in the database are expected to be removed, which is expected to improve system performance.

Computer System Development Contract

Recommendation

To ensure that the acquisition of consulting services is obtained at the best price, the Ministry should comply with Management Board directives, including undertaking a competitive selection process and obtaining the appropriate level of approvals for all future contracts and change orders.

Current Status

A new controller was recently hired whose responsibilities include establishing appropriate control processes for ensuring all senior managers comply with all the requirements of the Consulting Services Directive.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

Performance Indicators

Recommendation

To better measure its success in increasing compliance with support obligations and improving service to the public, the Family Responsibility Office should develop and report additional performance measures, including:

- *the age of accounts in arrears;*
- *the number of blocked calls to its call centre; and*
- *the results of periodic client satisfaction surveys.*

Current Status

In regard to this recommendation, the November 2000 report of the Standing Committee on Public Accounts made the following recommendation: "The Family Responsibility Office's performance measures should be evaluated to determine their appropriateness and to identify outstanding areas in need of such measures. In the event that shortcomings in performance measures are identified, the Family Responsibility Office should prepare new measures, indicating administrative benchmarks."

The Office has only recently initiated action to assess its performance information. However, as yet, new measures have not been established to monitor the age of accounts in arrears, and a client satisfaction survey had not been conducted in the last two years. We also noted that, while information was available to monitor the number of blocked calls, this information was not reported or used by the Office to monitor the performance of its call centre.

RECEIPT AND DISBURSEMENT OF SUPPORT PAYMENTS

Assigned Cases

Recommendation

To ensure the province receives all the funds to which it is entitled, the Ministry should work with the Ministry of Community and Social Services to ensure assignment notices are received on a timely basis.

The Ministry should also ensure that the Family Responsibility Office's database is updated immediately on receipt of the assignment notices from the Ministry of Community and Social Services.

Current Status

The Office indicated that over the past two years it has worked to improve the speed with which assignment notices are forwarded. It noted that:

- Ontario Works delivery agents now fax assignments directly to the Family Responsibility Office. Previously, assignment notices were sent by mail.
- All assignments are now processed centrally by Ontario Works Support Arrangement Services, which make up part of the Ontario Works Branch. This change occurred as a result of a transfer of responsibility for sole-support parents from the Family Benefits program to the Ontario Works program in 1999.

However, the Ministry of Community and Social Services does not track the amount of time it takes a delivery agent to forward a completed assignment notice to the Family Responsibility Office. As a result, it could not provide us with information to indicate whether assignment notices were processed on a timely basis.

MINISTRY OF THE ATTORNEY GENERAL

4.02–Office of the Public Guardian and Trustee

(Follow-up to VFM Section 3.02, *1999 Annual Report*)

BACKGROUND

The primary responsibilities of the Office of the Public Guardian and Trustee (the Office) include acting as the guardian of property and/or personal care for mentally incapable persons and administering the estates of persons who die in Ontario without a will and without known relatives. In addition, the duties of the Office were expanded in 1997 to include those of the Accountant of the Ontario Court. As such, the Office acts as custodian for assets paid into court, including monies paid to the credit of children until they reach the age of majority.

For the 1998/99 fiscal year, the Office had approximately 250 staff, operating expenditures of $21 million and managed assets of approximately $970 million.

In our 1999 audit, we concluded that although the Office had procedures in place to measure and report on the effectiveness of its services and programs, for the most part, the performance results reported did not meet the Office's targets.

The Office's systems and procedures were not adequate to ensure compliance with legislative requirements and due regard for economy and efficiency in the management of assets and financial affairs for its mentally incapable clients. We found a number of cases in which the Office had:

- acted on behalf of clients without the proper authority;
- failed to obtain income entitlements for clients;
- failed to identify and account for client assets in a timely manner; and
- failed to dispose of unused assets, maximize value to clients, and avoid unnecessary expenses.

Management reported serious errors in 33% of guardianship files and a high number of negligence claims. We were especially concerned that procedures were not effective in ensuring corrective action, even when significant problems had been reported to the Office's senior management.

For the administration of estates for individuals who died without a will or next-of-kin, we noted a lack of adequate effort by the Office to locate potential heirs to the assets of estates that had files opened prior to 1996. If heirs cannot be located, the assets of an estate are payable to the province 10 years after an individual's death.

The Accountant of the Ontario Court indicated that it did not have a legal obligation to locate account holders—clients for whom it administers funds until the age of majority is reached—and notify them of their assets. We found 1,300 accounts for minors with a value of over $13 million belonging to clients who were at least 25 years old. The Office had not attempted to obtain current information, such as addresses, for many of these clients.

Accordingly, we made recommendations for improving the Office's systems and procedures and the management of its resources.

CURRENT STATUS OF RECOMMENDATIONS

Based on information received from the Office, action has been taken to implement our recommendations, but further improvements are still required. The Office indicated that it is committed to proceed with such improvements. The current status of our recommendations is as follows.

SERVICE TO INCAPABLE PERSONS

Intake and Guardianship Investigation

Recommendation

To protect incapable persons from financial loss and/or physical harm or abuse, the Office should conduct investigations of allegations of abuse and, where necessary, commence legal action on a more timely basis.

Current Status

The Office reported it had established an automated tracking system for incoming allegations to improve its ability to monitor activity on these allegations. Cases that are not concluded within 45 days are to be subject to review by senior management.

The Office reported improvements and indicated a commitment to further improve the timeliness of responses and investigations.

Ongoing Guardianship

Recommendation

To protect vulnerable clients from financial and personal exploitation and to minimize liability to the province, the Office should closely monitor the ongoing guardianships of its existing clients through timely field investigations and visits. In addition, it should ensure that:

- *the Office acts with proper jurisdiction as guardian in all cases;*
- *income redirections and benefit entitlement applications on behalf of clients are completed on a timely basis to prevent loss of income to clients;*
- *assets of clients are identified, accounted for, and secured to prevent misappropriations; and*
- *unused assets of clients, such as unoccupied houses and vehicles, are promptly sold so that clients receive maximum value for them and avoid unnecessary expenses.*

The Office should establish adequate procedures to ensure that prompt corrective action is taken when problems are identified.

Current Status

The Office advised us that the number of front-line staff responsible for these vulnerable clients was increased by 35% in 1999. The Office revised its operational manual and established a new tracking system. Increased staffing and a reallocation of cases substantially increased the number of client visits. All new files are reviewed by a supervisor after 90 days.

With regard to ensuring that the Office acts with proper authority at all times, the Office informed us that an automated report was developed to alert staff to cases for which jurisdiction may need to be checked and corrected. A new Jurisdiction Manual was also developed for staff. Quarterly office-performance reports indicated that proper jurisdiction was generally being obtained on a timely basis.

Regarding income redirections and benefit entitlements for clients, staff were receiving system reports that help them identify:

- clients who may, based on age, become eligible for Old Age Security and Canada Pension Plan benefits;
- clients for whom applications may have been missed; and
- applications for extended health-care benefits that may have been overlooked.

An annual internal audit of clients' real estate and motor vehicles was instituted in 1999. Staff now receive a quarterly report identifying real estate that is vacant and appears to be eligible for sale and are required to follow up on the information. The Office indicated that it had completed the amendment of its procedures for handling clients' motor vehicles. Training on the new procedures commenced in April 2001. In addition, a review of procedures for handling clients' personal effects began in November 2000 and was expected to be completed by October 2001.

A tracking log was implemented to ensure that errors identified through internal reviews are monitored until they are resolved.

With regard to establishing adequate procedures for ensuring corrective action when problems are identified, internal reviews indicated some improvement but the Office needed to further reduce omissions and errors in providing services to incapable clients.

Termination of Guardianship

Recommendation

To properly discharge its fiduciary duty to former clients and their beneficiaries, the Office should ensure timely closure of files and transfer of assets.

Current Status

The Office has amended its procedures and reorganized the department responsible for this function. The Office advised us that over 90% of the group of 200 pre-July-1995 files referred to in our *1999 Annual Report* were closed out. For the remaining open cases, the Office stated that closing most or all of these files depended on the actions of third parties.

Notwithstanding the action taken, a significant number of the files identified for close-out from July 1995 through December 2000 were still not closed out as of April 2001.

ESTATE ADMINISTRATION

Locating Heirs

Recommendation

To ensure better success in locating heirs, the Office should conduct timely searches for heirs for estates that came under the Office's administration prior to 1996.

Current Status

Of the 451 pre-1996 estates identified as eligible for review, the Office indicated it had undertaken action on all of them. In 149 cases, heirs were identified; another 28 cases were identified for escheat; for the remaining files, action was ongoing.

The Office stated that the date for completion of work on the remaining files cannot be predicted because acquiring information from outside parties can take a long time, unexpected information can surface, and the supply of professional heir searchers is limited.

The Office was continuing in its efforts to complete work on all pre-1996 files.

Distribution of Assets

Recommendation

To avoid unnecessary compensation charges to estates, the Office should establish adequate procedures for ensuring that assets of estates are distributed to beneficiaries on a timely basis.

Current Status

As at March 2001, 15% of the 67 pre-July-1995 estate files remained open. The Office stated that closing the remaining files depended on the receipt of tax clearances and the outcome of legal work.

An increase in staff, the addition of a new supervisory position, and procedural improvements have reduced the amount of time being taken to distribute estates. A new reporting system was established to track the progress of files. Files concerning assets awaiting distribution are to be monitored closely to ensure a new backlog does not develop.

When we followed up, further action was required, as not all of the older files had yet been closed out. In addition, the Office needed to ensure that newer files would be closed out on a timely basis.

ACCOUNTANT OF THE ONTARIO COURT

Distribution of Assets

Recommendation

To assist beneficiaries who may not be aware of funds deposited in court on their behalf, the Office should establish better procedures for informing these beneficiaries of their entitlements.

Current Status

The Office advised us it had improved its procedures in this area—for instance, it established a notification process in February 2000. Notices are now sent to account holders when they become eligible to withdraw their funds.

The Office of the Public Guardian still had a large number of clients who had not been located or paid after they became eligible to receive their funds. As of April 2001, there were almost 1,800 clients who, although eligible to receive funds prior to the year 2000, had still not received all or part of their funds, which amounted to about $13 million. The Office explained that it could not predict when or whether the amounts owing to clients would be paid because it had not yet determined whether it would need to apply for a court order to allow it to access other government databases that might have current addresses. Also, the Office had not yet determined whether professional searchers should be hired to help locate account recipients.

The Office was conducting an in-depth review on the files not yet paid out to identify potential sources of information, such as lawyers and family members who might be able to help locate clients eligible to receive funds. It was anticipated that the review would be complete by March 2002.

STAFFING RESOURCES AND WORKLOAD

Recommendation

To achieve better economy and efficiency for its staff resources, the Office should:

- *assign clients to staff based on work requirements, giving proper consideration to complexity and other factors affecting the job; and*
- *establish workload standards and monitor time spent by staff on individual clients and tasks.*

Current Status

Regarding the assignment of clients to staff, the Office indicated it has implemented a system for assigning work to staff based on the complexity of cases. For example, senior client representatives are assigned the more complex cases.

However, substantive action was not taken on workload standards and the monitoring of time spent by staff on individual clients and tasks. The Office had engaged a consultant to determine how best to implement this recommendation.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

4.03–Child Care Activity

(Follow-up to VFM Section 3.03, *1999 Annual Report*)

BACKGROUND

The Ministry's Child Care Activity develops policies for licensed child-care programs and subsidizes the cost of a portion of those programs to enhance the availability of affordable, high-quality care for children up to the age of 12 years. This care is, in turn, intended to allow parents to work or undertake training or education leading to employment. However, access to subsidized child-care spaces is not an entitlement and is therefore limited by the availability of subsidized child-care spaces, which is determined by ministry funding and the financial contributions of municipalities and approved corporations.

During the 1998/99 fiscal year, the Ministry contracted with 186 municipalities and ministry-approved non-profit corporations, which either provided subsidized child-care services directly or purchased such services from third-party providers. In total, subsidized child care was provided by 3,400 licensed child-care centres and 140 licensed private home-care agencies for approximately 133,000 and 8,500 children respectively. For the 1998/99 fiscal year, ministry child-care expenditures totaled $593 million.

We concluded that the Ministry's administrative policies and procedures did not ensure that transfer payments were reasonable and adequately controlled because:

- the agency budget request and approval process was not timely, and funding was approved based on amounts approved in the previous year rather than on assessed needs;
- significant variances in agencies' expenditure and service data were often not explained or acted upon by the Ministry; and
- the Ministry did not regularly obtain and review the child-care subsidy eligibility criteria used by fee subsidy managers to ensure fairness and consistency across the province in determining access to subsidized care.

A number of the audit observations and recommendations in our 1999 report were similar to audit observations and recommendations made in our reports on the Child Care Activity in 1989 and 1995. In 1995, the Ministry had agreed to take action to implement our recommendations to correct observed deficiencies, but did not follow through with some of its stated intentions. Therefore, we again made recommendations to overcome these deficiencies, and the Ministry responded to our recommendations with commitments to take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information obtained from the Ministry, the Ministry has implemented a number of our recommendations. However, progress on others has been limited. The current status of ministry action taken on each of our recommendations is as follows.

CHILD-CARE FEE SUBSIDY PROGRAM

Fee Subsidy Budget Requests

Recommendation

To help ensure that each fee subsidy manager receives reasonable and appropriate funding, the Ministry should:

- *review and approve budget requests on a more timely basis;*
- *require fee subsidy managers to report information that is sufficient to permit informed funding decisions; and*
- *critically assess budget requests to ensure that approved funding amounts are commensurate with the demand for and value of the underlying services to be provided.*

Current Status

In September 2000, the Ministry issued a new *Framework for Child Care Service Planning*. The *Framework* provides guidelines for completion of a Service Plan that includes determining the mix and level of child-care services appropriate to local needs and priorities. These service plans are to be updated annually and will cover a three-year period in order to promote progression towards long-term goals. The Service Plans are to be submitted with the 2001/02 fiscal year submissions and will form the basis of the service contract and consequent funding.

A review of a sample of budget submissions received for the 2000/01 year noted that they were received and reviewed on a timely basis.

Quarterly Reporting

Recommendation

In order to ensure the timely identification and follow-up of significant in-year variances in expenditures and service delivery, as required by ministry policy, the Ministry should:

- *obtain adequate explanations of such variances; and*
- *review and approve any necessary corrective action.*

Current Status

The Ministry issued a new *Business Practices Guideline* to CMSMs in July 2000 that provides direction on the identification, documentation, and follow-up of significant in-year variances.

The Ministry has extended the due dates for receipt of the quarterly reports by 20 days to 50 days after the end of the first three quarters and to 65 days after the end of the fourth quarter. However, two thirds of a sample of quarterly reports reviewed for 2000 were received after the newly extended due dates. In addition, a number of the reports that contained significant variances still contained no evidence of ministry review or approval of corrective action.

Annual Program Expenditure Reconciliation

Recommendation

To improve the effectiveness of the Annual Program Expenditure Reconciliation (APER) process in identifying funding surpluses and inappropriate or ineligible expenditures, the Ministry should:

- *obtain independent assurance for all fee subsidy managers' expenditures either through the APER process or through some other form of independent assurance; and*
- *ensure that the financial statements accompanying APERs are sufficiently detailed or have the required note disclosure to permit the detection of inappropriate or ineligible expenditures as well as the reconciliation of the financial statement with any APER-reported funding surpluses or deficits.*

Current Status

The Ministry's new *Business Practices Guideline* now requires that all delivery agents, including municipalities, that receive $75,000 or more in a year must submit an APER. However, the APER process still does not ensure that the APER is reconciled to the audited financial statements or that inappropriate or ineligible expenditures are identified as intended.

Fee Subsidy Eligibility—Needs Test Assessment

Recommendation

To promote greater consistency in the application of needs tests and to help ensure equitable access to subsidized child care, the Ministry should periodically obtain and review the eligibility assessment criteria used by all fee subsidy managers and ensure that any variances are reasonable and clearly attributable to local conditions.

Current Status

In September 2000, the Ministry issued a *Fee Subsidy Management Guideline* that provides direction for establishing fee subsidy eligibility criteria. Training with respect to the new guideline was completed in early 2000.

We were advised that the Ministry is currently piloting the use of a monitoring tool that will include a review of the fee subsidy eligibility assessment criteria used. Once the results of the pilot project are completed, the Ministry is to commence annual reviews of Consolidated Municipal Service Managers that will include a review of the eligibility assessment criteria used.

Fee Subsidy Eligibility—Review of Needs Test Files

Recommendation

To ensure that only eligible families receive subsidized child care, the Ministry should conduct periodic needs test file reviews based on assessed risks. Where deficiencies or inconsistencies are identified, the Ministry should take timely and appropriate corrective action.

Current Status

Annual reviews of needs test files have not been conducted to date. However, the Ministry intends to commence annual reviews of needs test files as part of its regular monitoring process before the end of 2001.

WAGE SUBSIDY PROGRAM

Program Equity

Recommendation

To ensure that wage subsidy grants are fairly distributed, the Ministry should reassess its policy and method for subsidy grant distribution to ensure program equity, in accordance with program objectives.

Current Status

The Ministry has made only limited progress with respect to this recommendation since reallocations of wage subsidy grants only occur when excess funds are identified and become available for redistribution.

Wage Subsidy Grant Calculations

Recommendation

The Ministry should periodically assess the appropriateness of the amounts of wage subsidy grants paid and ensure that assessments are adequately documented and based on current information.

Current Status

The recommended assessments of the appropriateness of the amounts of wage subsidy grants paid have not been completed.

However, we were advised that the Ministry is currently piloting procedures in that regard and intends to implement them during 2001.

Wage Subsidy Utilization Statements

Recommendation

The Ministry should more effectively determine whether wage subsidies are paid in appropriate amounts and for the purposes intended, based on sufficient information from the Wage Subsidy Utilization Statements.

The Ministry should also consider whether it is advisable to obtain independent confirmation of the completeness and accuracy of information provided in the Wage Subsidy Utilization Statements, as is currently ministry practice for other types of transfer-payment Annual Program Expenditure Reconciliations.

Current Status

As a result of Local Services Realignment, the Ministry no longer receives Wage Subsidy Utilization Statements. However, the Ministry's new *Wage Subsidy Guideline* issued in February 2000 requires that Consolidated Municipal Service Managers certify to the Ministry that they have received audited special purpose reports from each service provider verifying that Wage Subsidy Grants have been used for the intended purposes only.

There continues to be no assurance that each employee has received a reasonable portion of the Wage Subsidy Grant or not more than the maximum specified amount, as required.

LICENSING AND ENFORCEMENT

Timeliness of Licensing Inspections

Recommendation

To ensure that child-care operators continue to be in compliance with licensing requirements, the Ministry should conduct inspections and renew licences on a more timely basis, as required by program guidelines.

When licensing inspections and renewals occur after licence expiry dates, the Ministry should ensure that the reason for the delay is documented.

Current Status

We reviewed a sample of licensing files for the 2000/01 fiscal year and found that the majority of licensed child-care centres continued to receive their renewal licence after the previous licence had expired, even when the required licence renewal applications and related fees were submitted prior to expiry of the previous licence. The reasons for the delays in renewing the licences were not documented in the licensing files.

Criminal Reference Checks

Recommendation

To help ensure that all licensed child-care operators implement the required policy for criminal reference checks, the Ministry should make greater efforts to:

- *monitor operators' confirmations of compliance with criminal reference check requirements; and*
- *take corrective action when necessary to ensure that criminal reference check policies are in place and implemented.*

Current Status

The licensing checklists for all licensed child-care operators now require confirmation that the operator has developed and implemented the required criminal reference check policy.

Serious Occurrences and Complaints

Recommendation

As required by ministry policy, the Ministry should take the necessary steps to ensure that:

- *all serious occurrence follow-up reports are reviewed and evaluated for the appropriateness of the corrective actions to be taken; and*
- *all required second follow-up visits resulting from reported complaints are conducted.*

Current Status

The Ministry now requires that written serious occurrence follow-up reports be received by the Ministry within seven days of the serious occurrence. We found that the required follow-up reports were generally received within seven days and were reviewed and evaluated for the appropriateness of the corrective action to be taken.

In addition, based on a review of a sample of complaints, we noted that second follow-up visits were generally conducted when required.

OTHER MATTER

MANAGEMENT INFORMATION

Recommendation

The Ministry should ensure that the information in its Service and Management Information System is complete and accurate and used to identify significant variances requiring further review.

Current Status

We were advised that the Ministry continues to emphasize the need to maintain complete and accurate information in its Service and Management Information System. In addition, the Ministry was in the process of implementing new software to allow data to be used for trend analysis, comparisons, and chart and report creation.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

4.04–Community Accommodation Program

(Follow-up to VFM Section 3.04, *1999 Annual Report*)

BACKGROUND

The Community Accommodation program funds approximately 200 non-profit agencies that provide community-based, residential accommodation and support to adults and children with developmental disabilities. The services provided range from minimal supervision for individuals placed in relatively independent living arrangements to intensive 24-hour-a-day, seven-day-a-week care when considered necessary.

For the 1998/99 fiscal year, the program's operating expenditures totalled approximately $285 million. In addition, the Ministry approved one-time capital expenditures of about $15 million for its Community Living Initiative for that year.

We concluded that the Ministry's procedures did not ensure that transfer payments to agencies were reasonable and satisfactorily controlled. In that regard we found that:

- the Ministry did not fully meet the requirements of the Management Board of Cabinet Directive on Transfer Payment Accountability to demonstrate that transfer payment agency expenditures were managed prudently;
- the agency budget request and approval process was not timely, and there was no evidence that the amounts approved were based on assessed needs; and
- the Ministry was not effectively monitoring agency expenditures or service levels, or ensuring that appropriate corrective action was taken when necessary.

We also concluded that the Ministry's procedures to ensure compliance with legislative requirements and ministry policies and procedures were not adequate because the Ministry needed to:

- conduct regular inspections of family home agencies and group homes and ensure that any necessary corrective actions are taken; and
- promptly investigate and follow up all serious occurrence reports to ensure that the necessary corrective actions are taken.

We made recommendations to overcome these deficiencies and the Ministry responded to our recommendations with commitments to take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information obtained from the Ministry, the Ministry had implemented or was in the process of implementing most of our recommendations. The current status of the Ministry's action on each of our recommendations is as follows.

TRANSFER-PAYMENT CONTROLS

Transfer-Payment Agency Accountability and Governance—Accountability

Recommendation

To hold transfer-payment agencies accountable for the prudent use of public funds, the Ministry should implement an accountability framework which satisfies the requirements of the Management Board Directive on Transfer-Payment Accountability.

Current Status

The Ministry issued a new governance and accountability framework, based on the Management Board Directive on Transfer-Payment Accountability, that was approved by senior ministry management in June 1999.

At the time of our follow-up in early 2001, the Ministry was training newly appointed program supervisors on the requirements of the framework as an initial step in the process of implementing the new framework.

Transfer-Payment Agency Accountability and Governance—Governance

Recommendation

To enhance and justify the reliance the Ministry can place on the boards of directors of transfer-payment agencies, the Ministry should ensure that the conditions necessary for reliance are in place.

Current Status

The Ministry is developing a board resource manual that will set out the roles and responsibilities of boards as well as requirements for board composition, recruitment, and training. The Ministry intends to distribute the draft manual to selected stakeholders for review during the fall of 2001. The manual is expected to be ready for distribution in the spring of 2002.

Agency Funding Requests and Approvals

Recommendation

In order to help ensure that agency funding is equitable and appropriate, the Ministry should:

- *review and approve budget requests on a more timely basis; and*
- *critically assess budget requests to ensure that amounts approved are commensurate with the demand for and value of the underlying services to be provided.*

Current Status

The Ministry developed a new timetable for the 2000/01 budget approval process for all its programs, including the Community Accommodation program, whereby regional offices had to finalize their service contracts by June 30, 2000. However, our review of a sample of budget submissions for that year found that budget reviews continued to be untimely—approximately half of the service contracts had not been completed by November 2000.

To aid in the review of the budget requests, the Ministry has developed a draft transfer-payment checklist that itemizes the key elements of the budget submission review and approval process. The Ministry intends to implement this checklist during the current year.

Community Living Initiative

Recommendation

In order to be able to demonstrate that funding provided to agencies under the Community Living Initiative is necessary and reasonable, the Ministry should review and adequately document its assessment of the necessity for and reasonableness of all approved costs.

Current Status

The Community Living Initiative ended in March 2000. With respect to operational funding requests, subsequent to the audit, the Ministry required that all requests in excess of the average of $55,000 per placement be reviewed and approved by the Ministry's head office. We were advised that, for future initiatives, the Ministry will ensure that all funding requests be reviewed and adequately documented in assessing the necessity for and reasonableness of all approved costs.

Quarterly Reporting

Recommendation

In order to more effectively monitor agency expenditures and service levels and to better identify significant variances for follow-up and corrective action, the Ministry should:

- *obtain and analyze agency quarterly reports on a more timely basis;*
- *ensure that adequate explanations or corrective action plans are provided for all significant variances; and*
- *review and approve any necessary corrective action.*

Current Status

We reviewed a sample of quarterly reports and found that approximately one-third of them were received after their due dates. In addition, although explanations and corrective action plans were generally provided for significant variances identified in the quarterly reports, in many cases we found no evidence of ministry review or approval of these explanations and plans.

The Ministry advised us that it is aware that its requirement for quarterly reporting poses challenges for some agencies. The Ministry also advised us that it continues to work with agencies to overcome these difficulties on an ongoing basis in order to improve the timeliness and comprehensiveness of the quarterly reports.

Annual Program Expenditure Reconciliation

Recommendation

To identify and recover funding surpluses as well as the amounts of any inappropriate and ineligible expenditures, the Ministry should:

- *ensure that Annual Program Expenditure Reconciliations (APERs) and financial statements contain sufficiently detailed and comparable information to allow identification of funding surpluses or ineligible or inappropriate expenditures; and*
- *obtain, review, and approve all APERs on a timely basis.*

Current Status

In many instances APERs continued to be received late. For example, for the 1999/2000 fiscal year, almost one-third of the APERs were not received by their due dates.

In addition, both APERs and the accompanying audited financial statements lacked sufficient detail or the note disclosure necessary to effectively identify funding surpluses or ineligible or inappropriate expenditures.

The Ministry advised us that it continues to provide support to regional offices with respect to the timely review of APERs. For the 2000/01 APER package, the Ministry will update the 1999 "best practices" checklist to facilitate the identification of eligible and ineligible program expenditures.

COMPLIANCE WITH LEGISLATION, POLICIES, AND PROCEDURES

Adult Accommodation

Recommendation

To ensure that group and family homes meet health and safety requirements, the Ministry should:

- *conduct initial and subsequent inspections of and approve adult group homes on a regular basis;*
- *follow up identified areas of group home non-compliance to ensure that any necessary corrective actions are taken;*
- *conduct and adequately document the required family home agency reviews; and*
- *ensure that it receives the required notifications of family home agency approvals of individual family homes and that monthly visits of agency staff to family homes are adequately documented.*

Current Status

The Ministry has developed and implemented a compliance inspection checklist for documenting both adult group home inspections and family home agency reviews. We found that the checklists were being completed as required and instances of non-compliance with mandatory requirements were noted and followed up.

Serious Occurrences

Recommendation

To help safeguard the health and safety of individuals living in community accommodation, the Ministry should ensure that:

- *agencies report all serious occurrences both verbally and in writing within required timeframes; and*
- *ministry staff promptly investigate and follow up all serious occurrences to ensure that the necessary corrective actions have been taken.*

Current Status

A review of a sample of serious occurrence files indicated that incidents were reported verbally and in writing within the required ministry timeframes and, where necessary, corrective actions were taken and approved by the Ministry.

MANAGEMENT INFORMATION SYSTEMS

Recommendation

To improve the usefulness of its management information system, the Ministry should:

- *ensure that complete and accurate agency information is collected and entered into the system on a timely basis; and*
- *implement regular, detailed exception reports for management review and follow up.*

Current Status

We were advised that the Ministry continues to emphasize the need to maintain complete and accurate information in its service and management information system and is providing the appropriate training in that regard. In addition, the Ministry is currently in the process of implementing new software that will allow data to be used for trend analysis, comparisons, and chart and report creation.

MINISTRY OF CONSUMER AND BUSINESS SERVICES

4.05–Liquor Control Board of Ontario

(Follow-up to VFM Section 3.05, *1999 Annual Report*)

BACKGROUND

The Liquor Control Board of Ontario (LCBO) is a government enterprise incorporated under the *Liquor Control Act* to regulate the production, importation, distribution and sale of alcoholic beverages in Ontario. At the time of our 1999 report, the LCBO reported to the Minister of Consumer and Commercial Relations (now the Minister of Consumer and Business Services).

The LCBO operates about 600 stores that are supplied by five warehouses. In partnership with the LCBO, established retailers operate approximately 100 agency stores in communities where the populations are not large enough to support regular LCBO stores.

The LCBO employed over 4,500 permanent and casual staff in 1998/99 and over 5,000 in 2000/01, providing consumers with over 11,000 products. For the 1998/99 fiscal year, sales were approximately $2.3 billion; by 2000/01, sales were $2.7 billion. Net income was $809 million for 1998/99 and $876 million for 2000/01, with the LCBO remitting, respectively, $776 million and $850 million of its profits to the Consolidated Revenue Fund.

On the basis of our audit, we concluded that, in most respects, procedures were adequate to ensure that the development of store facilities and store operations were carried out economically and efficiently. However, we made a number of recommendations for improvement, to which the LCBO responded with commitments for corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information that we received from the LCBO, some action has been taken on all of the recommendations that we made directly to the LCBO's senior management and that were referred to in our 1999 report. The current status of action taken on each of our recommendations is as follows:

- *With respect to store planning and the justification for capital projects, we recommended that the LCBO develop policies and requirements for marketing studies, financial analyses, and post-implementation reviews to ensure that capital project decisions are based on timely, relevant, and consistent information.*
- The LCBO has taken some action to ensure that capital project decisions are based on timely, relevant, and consistent information. According to information provided to us by the LCBO, the LCBO made improvements to the accuracy of financial analyses to support its capital project decisions and performed post-implementation reviews on all 11 projects for the 1998/99 fiscal year with approved capital expenditures of over $100,000 each. The LCBO also informed us that it has developed formal policies for financial analyses and post-implementation reviews. We were informed by the LCBO that, although formal policies for market studies have not yet been developed, market studies are performed as a matter of

practice. For the 2000/01 fiscal year, five of ten market studies scheduled had been completed as of August 2001.

- *Regarding contractor selection and management, we recommended that policies and procedures be developed for evaluating contractor performance and for justifying situations where single-sourced contracts are used in order to ensure that qualified contractors are selected through a transparent, competitive process.*

- Continuing action was required for our recommendation regarding contractor selection and management. According to information provided to us by the LCBO, the LCBO requires that a Post Construction Project Survey—used to evaluate contractors and suppliers with respect to their workmanship, professional standards, and ability to meet budgets and deadlines—be completed for all major construction projects. The LCBO informed us in August 2001 that the survey had not yet been completed for projects in 2000/01 because it normally takes three to four months after a store is opened to rectify all the construction deficiencies. As a result, it may take up to seven months after a store opening to complete the survey. As for justifying the use of single-sourced contracts for construction projects, the LCBO has developed a draft policy outlining circumstances where the practice of sole sourcing is permitted. We were informed that this policy had been in use since January 2000, although final management approval of the policy was still pending at the time of our follow-up.

- *In the area of store performance, we recommended that the LCBO refine the indicators used in assessing store performance. We also recommended that the LCBO review the ongoing viability of certain of its smaller stores.*

- Continuing action was required for our recommendation that the LCBO refine the indicators used in assessing store performance. The LCBO informed us that it refines the performance targets set initially each year as part of the budget process by negotiating with the store manager and district manager based on individual store characteristics. The LCBO further indicated that, in 2000, it launched a pilot project at selected stores to improve inventory turnover and planned to expand the project to other stores. The LCBO acknowledged that there were alternative solutions that would enhance profitability in small stores with marginal performance; however, these alternatives were restricted by collective agreements and would require government approval.

- *In our review of store staffing, we recommended that the LCBO minimize staffing costs by more carefully analyzing factors affecting store operations and monitor and follow up on discrepancies in staffing levels among stores with similar characteristics.*

- Continuing action was required for our recommendation regarding store staffing. The LCBO informed us that it was developing a computerized staff-scheduling application and was expecting to use the scheduling tool to facilitate control of casual hours and to minimize unnecessary overtime. The target implementation dates were January 2002 for head office/warehouses and April 2002 for stores. The LCBO advised us that, in addition, it was developing more definitive store staffing guidelines based on sales volume, store format, seasonality, and physical plant limitations; however, before such guidelines can be finalized, the computerized staff-scheduling application would have to be implemented.

- *In our review of the Vintages program, we recommended that the LCBO monitor and assess the benefits of the program to ensure that it justifies its lower income contribution relative to the contribution of regularly listed products.*
- Continuing action was required for our recommendation regarding the Vintages program. The LCBO informed us that it had conducted a review of the Vintages program and had made recommendations to the government on modifying the pricing policies to deal with declining margins. The LCBO also indicated that the Vintages program, initially addressed in the Supply Chain Project, was now being dealt with in a separate, long-term, logistics-strategy consultant study.

MINISTRY OF ECONOMIC DEVELOPMENT AND TRADE

4.06–Financial Control Review

(Follow-up to VFM Section 3.06, *1999 Annual Report*)

BACKGROUND

The review we conducted for the 1999 Annual Report was of the financial controls of the Ministry of Economic Development and Trade (the Ministry), which was amalgamated with the Ministry of Tourism during the period of our review work. The Ministry's key objectives were to expand the province's economy, increase foreign and domestic investment, maintain the province's share of the world tourism market, and increase Ontario's share of the global export market.

During the four years leading up to our 1999 review, the Ministry experienced a number of major structural changes, including the aforementioned amalgamation with, and later separation from, the Ministry of Tourism and the devolution or wind-up of a number of agencies. There were also significant changes in program delivery and substantial budget cuts and staff downsizing. In addition, the Ministry became the provider of administrative services for the Ministry of Intergovernmental Affairs, and a number of financial functions were to be transferred to a new central agency, the Shared Services Bureau. This transfer was completed in June 2000.

During the 1998/99 fiscal year, the Ministry spent $161 million to administer economic development, trade, and tourism programs. These expenditures consisted of $40 million for staff salaries and benefits, $76 million for other direct operating expenditures such as supplies, services, and equipment, and $45 million for transfer payments and other disbursements.

We reviewed the Ministry's financial controls, systems, and procedures to determine whether they were adequate to ensure that expenditures were properly authorized, processed, and recorded.

Prior to our 1999 review, the Ministry had attempted to deal with the impact of the many structural changes on financial controls and had taken steps to act on many of the issues noted. However, we concluded that, overall, financial controls were not sufficient to ensure that expenditures were properly authorized, processed, and recorded. Controls over the $15 million spent annually through the Ministry's accountable-advance account were weak as the account was not reconciled on a timely basis, and in some cases the delay between making payments and recording them on the financial system was six months or more. There was also a lack of segregation of duties in the Finance Branch, as 21 of the 28 employees could both enter transaction information into the financial system and approve payments. In addition, in over 60% of the purchases we reviewed, we found control weaknesses such as a lack of required purchase orders, contracts, and tendering. Controls over payroll were generally adequate.

Accordingly, we recommended that the Ministry correct these control problems, and the Ministry responded that corrective action would be taken to:

- perform reconciliations and record all transactions on a timely basis;
- ensure an adequate segregation of duties over the processing of financial transactions; and

- require that all payments be supported by evidence of compliance with mandatory competitive acquisition and approval policies.

CURRENT STATUS OF RECOMMENDATIONS

Based on information received from the Ministry of Economic Development and Trade, significant corrective action has been taken on all of the recommendations we made in our 1999 report. The current status of each of our recommendations is outlined below.

ACCOUNTABLE-ADVANCE ACCOUNT

Payment Processing

Recommendation

To help reduce the risk that errors or irregularities could occur and go undetected, the Ministry should:

- *establish, where necessary, and enforce maximum dollar amounts for manual cheques;*
- *record all manual cheques and electronic fund transfers in the financial system at the time the transactions are processed; and*
- *record deposits on a timely basis.*

Current Status

The Ministry informed us that, in August 1999, it updated its procedures and established a maximum dollar limit of $100,000 for manual cheques. Furthermore, the Shared Services Bureau at the Management Board Secretariat was to monitor staff performance to ensure the prompt and accurate recording of transactions in the financial system and compliance with established procedures.

The Ministry informed us that, to ensure that deposits are recorded on a timely basis, its current procedure required that deposits be entered by the Shared Services Bureau into the head office's accountable-advance account and financial system within 24 to 48 hours of collection.

Cheque Signing Controls

Recommendation

To ensure that no one individual is in a position to perpetrate and conceal errors or irregularities in the normal course of their duties, the Ministry should ensure that:

- *the keys to the cheque-signing machine are in the possession of two different individuals;*
- *the machine is dual locked when not in use; and*
- *the signature plate, both keys, and all blank cheques are kept in secure locations.*

Current Status

The Ministry indicated that a new cheque-signing machine with enhanced security features, including electronic signatures, was installed. The Shared Services Bureau trained staff on the appropriate use of the new machine and documented new controls and procedures that were distributed to staff. These controls restrict staff processing the manual cheques from entering payments into the financial system. The two staff members who are responsible for printing cheques each have a separate password enabling them to access the cheque-signing machine. The key to the cheque-signing machine is secured, and access is limited to the manager and co-ordinator of Financial Operations. Blank cheques are stored in a cabinet in a locked room, and only the senior customer-service representative and the administrative assistant have access to the cheques.

In addition, the Ministry informed us that the Shared Services Bureau was monitoring staff to ensure that they complied with required procedures.

Advance-account Agreements and Reconciliations

Recommendation

To ensure that the accountable-advance account is properly managed and controlled, the Ministry should:

- *conclude a written agreement with the Ministry of Finance stipulating the permissible uses for the account and periodic reporting requirements; and*
- *ensure that monthly bank reconciliations are completed and reviewed on a timely basis.*

Current Status

The Ministry informed us that it contacted the Ministry of Finance to ensure that advance-account agreements would be signed for each of the three ministries that receive financial services from its Finance Branch—namely, the Ministry of Economic Development and Trade, the Ministry of Intergovernmental Affairs, and the Ministry of Tourism. However, the Ministry of Finance responded that it would not enter into any advance-account agreements with the three respective ministries because a new accountable-advance operating policy was being developed. This new policy is to set out mandatory requirements to be followed by ministries and is to eliminate the need for separate agreements with individual ministries. At the time of our follow-up in July 2001, the new policy had yet to be finalized by the Ministry of Finance.

The accountable-advance account bank-reconciliation process has been redesigned, and additional resources have been assigned to complete the reconciliation on a timely basis. The monthly bank reconciliations are now being done by the Shared Services Bureau and, at the time of our follow-up, were being completed and reviewed on a timely basis.

PAYROLL EXPENDITURES

Recommendation

To ensure that the payroll is accurate, the Ministry should:

- *check input documents to output reports and ensure that this check is done by someone other than the person who enters payroll change information;*

- *compare the pay-list to the expected pay and follow up on any significant differences prior to approving the payroll for processing; and*
- *promptly investigate and resolve any discrepancies between the pay and benefits accounts and Ministry of Finance records.*

Current Status

The Ministry informed us that the Shared Services Bureau has put in place procedures that include a pre-control check of the payroll against the pay-list that is verified by the pay representative responsible for the pre-control. In addition, the Shared Services Bureau's payroll manager and group leader each perform separate spot checks each pay period to ensure payments are correct. The reconciliation function was redesigned, and additional staff were allocated to ensure a proper segregation of duties and improved internal controls.

The Ministry indicated that discrepancies between the pay and benefits accounts and Ministry of Finance records are investigated and resolved monthly through the Central Accounts reconciliation process. We noted that reconciliations were being done on a timely basis.

OTHER EXPENDITURES

Procurement Practices

Recommendation

To ensure that payments are processed accurately and that the risks of errors and irregularities are minimized, the Ministry should:

- *thoroughly check the accuracy of invoices, verify that goods and services have been received, and obtain all discounts; and*
- *require that all payments be supported by evidence of compliance with the Ministry's mandatory competitive acquisition and approval policies.*

Current Status

The Ministry informed us that it held meetings with senior management and program-level staff to review the Ministry's procurement policies in light of the weaknesses noted in the 1999 review. The Ministry indicated that it was streamlining and updating the procurement function as part of the process of transferring this function to the Shared Services Bureau. At the time of our follow-up in July 2001, the Ministry had completed a service-level agreement with the Bureau and was awaiting its final signing and implementation.

The Ministry informed us that the service-level agreement with the Shared Services Bureau required the Bureau to monitor policy compliance and refer significant cases of non-compliance to the Ministry for action. In addition, the Ministry has reinforced the requirement that program area managers must review supporting documentation prior to approving invoices for payment. The Ministry also informed us that training sessions for program staff on procurement were implemented during the 2000/01 fiscal year.

Computer Processing Controls

Recommendation

In order to provide adequate computer processing controls over the payment of expenditures, the Ministry should:

- *limit the number of staff who have the authority to enter transaction information and approve payments, and ensure that no one individual has the authority to do both;*
- *keep a systems log of the individuals who approve each transaction;*
- *require management approval to process invoices that cannot be matched to purchase orders; and*
- *ensure an adequate segregation of duties between the purchasing and payment processing functions.*

Current Status

The Ministry indicated that the Shared Services Bureau has restricted access to the financial system such that the same staff member cannot both initiate payments and perform the reconciliation process. Individuals who approved transactions for payment were to be noted on the system log and compared to an authorized list of staff designated for this function.

Reconciliations with Ministry of Finance Records

Recommendation

To ensure that all transactions recorded in the Ministry's financial system are accurate and complete, the Ministry should:

- *perform monthly reconciliations of its financial system to Ministry of Finance records; and*
- *follow up on and resolve any differences on a timely basis.*

Current Status

At the time of our follow-up in July 2001, we noted that the Ministry's financial transactions were being reconciled with Ministry of Finance records and that discrepancies were being resolved on a timely basis. The Shared Services Bureau was carrying out this work for the Ministry.

GENERAL FINANCIAL CONTROLS

Staffing

Recommendation

In order to ensure that key financial control activities are performed on a timely basis by well trained and knowledgeable staff, the Ministry should review the staffing of the Finance Branch.

Current Status

Since the 1999 review, the Ministry implemented a new organizational structure that is intended to strengthen the procurement and reconciliation functions. The Ministry informed us that, as part of the reorganization, 17 of the 32 financial-processing and procurement staff members were transferred to the Shared Services Bureau in June of 2000. We were informed that, to ensure that financial activities are properly controlled, both the Ministry and the Bureau were updating policies, streamlining procedures, and training staff in their new roles on an ongoing basis.

MINISTRY OF FINANCE

4.07–Provincial Personal Income Tax Revenue and Related Credits and Reductions

(Follow-up to VFM Section 3.07, *1999 Annual Report*)

BACKGROUND

With the exception of Quebec, all Canadian provinces and territories have entered into a personal income tax collection agreement with the federal government. Under the terms of that agreement, the federal government processes and collects Ontario personal income tax, processes claims for provincial personal income tax credits and reductions, and remits the net proceeds to the province.

For the 1998/99 fiscal year, the province received approximately $17.2 billion in personal income taxes net of $1 billion in tax credits, which represented 31% of total provincial revenues for that year.

We concluded that the Ministry did not have the necessary information to assess whether provincial personal income taxes were correctly determined and whether personal income taxes were remitted to the province in as timely a manner as possible. In that regard, we found that:

- Revenue forecasts, and therefore in-year cash flows, were significantly less than the final determination of personal income tax revenues for the last three years. We estimated that the cost to the province of the resultant cash flow deficiencies for those years totalled $189 million.
- The Ministry had very little input into, or information from, Revenue Canada about its audit procedures or its audit strategy, plans, and coverage of Ontario-based taxpayer returns.

In addition, the Ministry estimated that the federal government's benefit from retaining interest and penalties revenue received in excess of bad debts written off from Ontario personal income tax payers could exceed $50 million per year. However, the federal government has not provided the Ministry with the data required to verify the actual federal benefit.

We also noted that the Tax Collection Agreement imposes a number of significant limitations on the province with respect to the implementation of tax policy changes and administrative practices, the necessity and advisability of which are no longer clear.

We made a number of recommendations to the Ministry to address our concerns. The Ministry agreed with the merits of our recommendations and committed to pursue corrective actions.

CURRENT STATUS OF RECOMMENDATIONS

For most of our recommendations, the Ministry's ability to act on them was, and continues to be, contingent on its ability to successfully renegotiate the tax collection agreement with the federal government. These negotiations were ongoing at the time of our follow-up. The status of action taken on each recommendation is as detailed below.

TIMING OF PERSONAL INCOME TAX FLOWS

PAYMENT FLOWS

Recommendation

To ensure that payments of Ontario personal income taxes are remitted to the province in the correct amount and on a more timely basis, the Ministry should consider negotiating the necessary amendments to the Tax Collection Agreement pertaining to cash flows.

As long as in-year payments to Ontario continue to be based on revenue forecasts and are subject to delay, the Ministry should seek compensation for the cash flow deficiencies for each year.

Current Status

The federal Minister of Finance has stated verbally that the federal government will not profit from the administration of provincial taxes. Current negotiations with the federal government were seeking to firm up this commitment.

In the meantime, there is room to improve on the accuracy of the current estimation process. On an interim basis, the federal government has tentatively agreed to a new estimation formula that effectively allows Ontario input in determining the estimated in-year payments. This represents a substantial improvement in the current process.

The province was also investigating the feasibility and benefits of basing payments on a share of collections that would match entitlements more closely than the current estimation process.

INTEREST AND PENALTIES

Recommendation

To assess whether the federal government's retention of non-tax revenues is equitable, the Ministry should periodically receive the necessary information about non-tax revenues and accounts written off in respect of Ontario personal income tax.

The Ministry should use this information to consider whether it is beneficial to renegotiate the terms of the Tax Collection Agreement as it pertains to the sharing of interest and penalties revenues.

Current Status

The matter of penalties and interest has been raised with the federal government on a number of occasions since the Provincial Auditor's Report was prepared. To date, the federal government has not provided adequate information to defend its position that it incurs financial loss from the administration of late accounts, including interest and penalties.

Ontario is continuing to seek a proper resolution of this matter before it signs a new Tax Collection Agreement.

AUDITS OF PERSONAL INCOME TAX RETURNS

Recommendation

In order to obtain assurance that the declaration and payment of personal income taxes to which the province is entitled are in the correct amount, the Ministry should:

- *establish minimum audit requirements and renegotiate the Tax Collection Agreement with the federal government to require Revenue Canada [now the Canada Customs and Revenue Agency] to meet the Ministry's requirements for such things as audit coverage, selection criteria, and nature of the work to be performed; and*
- *obtain the necessary information from Revenue Canada to be able to assess whether it has met the Ministry's requirements.*

Current Status

As noted in the report, under the current Tax Collection Agreement, the Ministry has no right to establish such things as minimum audit requirements. However, this matter has been identified by Ontario as an issue to be addressed in the context of a revised Tax Collection Agreement, currently under negotiation between the federal government and participating provinces.

TAX POLICY IMPLICATIONS

Recommendation

The Ministry should consider whether the benefits under the Tax Collection Agreement continue to outweigh the restrictions, and, if considered advisable, renegotiate the Tax Collection Agreement in line with provincial interests.

Current Status

Ontario has stated publicly that an acceptable new Tax Collection Agreement should recognize legitimate provincial policy-making goals. In that context, Ontario has proceeded to implement a tax-on-income system, which gives the province direct control over its tax brackets, tax rates, and non-refundable tax credits.

The Provincial Auditor's recommendations continue to be a fundamental consideration for Ontario as it negotiates a new Tax Collection Agreement.

RELATED TAX CREDITS AND REDUCTIONS

Property and Sales Tax Credits

Recommendation

In order to reduce the incidence of false and inaccurate claims, the Ministry should negotiate with Revenue Canada for increased audit coverage of property and sales tax credit claims to ensure that Revenue Canada annually audits more, if not all, of the claims meeting at least one of the Ministry's seven selection criteria.

In addition, the Ministry should request that Revenue Canada audit a random sample from the remaining tax credit claims processed to ensure that any claim may be subject to audit and so that the degree of overpayment can be assessed for the program as a whole.

Current Status

We were advised that a formal agreement has been signed between the Ministry and the Canada Customs and Revenue Agency (CCRA, formerly Revenue Canada) to increase the audit coverage for property and sales tax credit claims to the desired amount at an annual cost of about $1 million. The increased audit coverage commenced for the 1999 taxation year. The Ministry was awaiting results from the CCRA.

In addition, the CCRA conducted a random sample of audits for the 1998 taxation year. The Ministry was awaiting the results of the sample in order to review the compliance rate of the Property and Sales Tax Credit program.

Labour Sponsored Investment Funds

Recommendation

In order to help ensure that Labour Sponsored Investment Funds and Eligible Small Businesses comply with the terms and conditions of the Community Small Business Investment Funds Act, *the Ministry should increase its audit coverage to its target level. This would also permit excessive or ineligible claims to be identified, reassessed, and collected on a timely basis.*

Current Status

Every Labour Sponsored Investment Fund (LSIF) must now complete an Annual Certificate of Compliance. Ministry auditors conduct an in-depth review of each certificate and any issues identified are further investigated during a field audit. The Ministry has completed either a desk audit or a field audit of all active LSIFs in each of the last two years. In addition, the Ministry has significantly increased its audits of Eligible Small Businesses to approximately 100 during each of the last two years.

With respect to potentially ineligible tax credit claims, we were advised that the CCRA has conducted a review of the potentially ineligible 1996 accounts and issued appropriate reassessments for ineligible claims. In addition, a process is now in place to conduct reviews of LSIF tax credit claims on a timely basis so that any valid reassessments do not become statute barred.

Ontario Tax Reduction

Recommendation

In order to help ensure that Ontario tax reductions are only provided to eligible individuals, and in the correct amount, the Ministry should negotiate minimum verification requirements with Revenue Canada [now CCRA] so that it verifies, at least on a sample basis, claims for dependent children.

Current Status

The Ministry requested the CCRA to review a sample of claims for disabled or infirm dependants and dependent children for the 1998 taxation year. We were advised that this review revealed that a very small percentage of the claims were not supported thus leading to the conclusion that there was a low risk of non-compliance.

A request has been made for the CCRA to conduct these sample reviews on an annual basis.

MINISTRY OF HEALTH AND LONG-TERM CARE

4.08–Cancer Care Ontario

(Follow-up to VFM Section 3.08, *1999 Annual Report*)

BACKGROUND

Cancer Care Ontario (CCO) was established in 1997 to integrate cancer services throughout Ontario. CCO's primary task is "to ensure that people in Ontario continue to receive high-quality cancer treatment." CCO also aims to reduce the number of people affected by cancer in the future by increasing prevention and screening efforts. CCO operates eight regional cancer centres, the Ontario Breast Screening Program, and the Ontario Cancer Registry, and it advises the Ministry of Health and Long-Term Care on cancer issues.

During the 1998/99 fiscal year, Cancer Care Ontario had expenses totalling approximately $209 million, of which $173 million was provided by the Ministry of Health.

In our 1999 audit, we found that certain standards set to ensure that people in Ontario receive high-quality cancer care were not being met:

- Only 32% of CCO's patients requiring radiation therapy received it within the recommended four weeks from referral.
- The Ontario Breast Screening Program had insufficient mechanisms to monitor whether screening centres were meeting required performance standards and to ensure that high-risk women were identified for screening.

Although CCO generally managed its resources adequately, we noted that:

- The required Memorandum of Understanding between the Ministry and CCO setting out CCO's role and powers and the Ministry's expectation regarding CCO's administration was not in place.
- Cancer Care International had not been managed with due regard for economy.

We made a number of recommendations for improvement to CCO and the Ministry and received their commitments to take the necessary corrective action.

CURRENT STATUS OF RECOMMENDATIONS

According to information provided by CCO and the Ministry of Health and Long-Term Care, substantive action has been taken with respect to some recommendations in our *1999 Annual Report*, while action is planned or in progress for the remaining recommendations. Outlined below is the current status of all recommendations made in our *1999 Annual Report*.

ACCOUNTABILITY

Recommendation

To clarify CCO's role and responsibilities and the Ministry's expectations regarding CCO's administration, the Ministry should expedite:

- *revisions to the* Cancer Act; *and*
- *the establishment of a Memorandum of Understanding with CCO.*

Current Status

In November 1999, the Ministry and CCO signed a Memorandum of Understanding. The Ministry indicated that, before undertaking the complexities of a review of the *Cancer Act,* it wished to stabilize the role and responsibilities of CCO as outlined in the Memorandum of Understanding and as specified by the February 2000 Management Board of Cabinet's *Directive for Agency Establishment and Accountability.* A time frame for revising the *Cancer Act* was not yet established.

TREATMENT

Radiation Therapy—Patient Waiting Times for Radiation Treatment

Recommendation

To ensure patients' access to radiation therapy is improved, CCO, in conjunction with the Ministry, should develop and implement a long-range planning and funding process that integrates equipment and staffing requirements for radiation therapy.

Current Status

CCO indicated that work was underway to refine the cost-per-case funding as was recommended by the Task Force on Human Resources for Radiation Services in February 1999. We were informed that a recommendation from the Joint Policy and Planning Committee, University Health Network/Princess Margaret Hospital, and CCO would be submitted to the Ministry during the current year.

Radiation Therapy—Radiation Equipment Availability

Recommendation

To help ensure the best outcomes for patients from radiation treatment, CCO, in conjunction with the Ministry, should implement a plan that provides the most effective radiation treatment equipment for patients.

Current Status

In October 2000, CCO and the University Health Network/Princess Margaret Hospital submitted a plan to the Ministry for replacing and upgrading the province's current inventory of radiation treatment machines. This plan included replacing existing older cobalt technology with the more advanced generation of high-energy linear accelerators. The Ministry indicated that it was currently reviewing this plan and was expecting it to be finalized early in the 2001/02 fiscal year.

Clinic Waiting Lists

Recommendation

To help ensure that all cancer patients receive care within the recommended time frame, CCO:

- *establish standards for waiting times from patient referral to initial clinic appointment; and*
- *ensure that patient waiting times for all types of clinic appointments are tracked and appropriately followed up.*

Current Status

CCO indicated that:

- standards for waiting times were now in place at all regional cancer centres;
- it was collaborating with the Institute for Clinical Evaluative Studies on a project that includes consultation and research into the management of radiation therapy waiting lists in Ontario;
- a task force was established to make recommendations regarding prospective tracking of waiting times within CCO; and
- it was in the process of piloting a new system for tracking waiting times in two of its regional cancer centres.

Practice Guidelines

Recommendation

CCO should periodically assess the usage and effectiveness of its practice guidelines and take corrective action where warranted.

To reduce duplication of effort by regional cancer centres (RCCs) and to better ensure consistent patient treatment, CCO should consider having RCCs jointly develop interim practice guidelines.

Current Status

We were advised by CCO that initiatives were underway to address these recommendations. For example:

- A series of evaluation studies that had relevance to the use of guidelines in Ontario were conducted. For example, these studies were expected to enable CCO to effectively monitor the introduction of guidelines in the areas of hormonal management of prostate cancer.
- One study of compliance with practice guideline recommendations was completed and published. A second study assessed whether provincial practices were consistent with the guidelines on the management of early-stage breast cancer. Preliminary results were being

discussed with CCO's Breast Disease Site Group, which developed the treatment guidelines. Further studies of compliance with other guidelines were at various stages of development.

- Several studies were undertaken to determine the attitudes of Ontario oncologists towards practice guidelines and the impact of clinical practice guideline recommendations on organizational decision-making. This was expected to enable CCO to better understand the barriers to compliance with practice guidelines and would guide future efforts to ensure optimal compliance.

According to CCO, as the provincial guideline initiative has grown and developed, it has produced more than 45 documents on topics that experts in the Disease Site Groups have considered to be of high priority. This has greatly reduced the need for regional cancer centres to develop interim guidelines. As a result, the duplication of effort that occurred in the past has been substantially reduced.

DRUG FORMULARY

Recommendation

To encourage the use of equally effective but less costly treatment regimens, CCO should identify the most cost-effective drug regimens for treating different types of cancer and make this information available to medical practitioners prescribing cancer treatment.

Current Status

According to CCO, its Drug Formulary was posted on its Web site and provided information on the cost of drugs and chemotherapy regimens. All chemotherapy agents had been posted on the Web site, and disease-specific chemotherapy regimes were being progressively posted as their review by provincial Disease Site Groups was completed.

We were advised by CCO that the cost of chemotherapy regimens is considered by the Policy Advisory Committee of the New Drug Funding Program when it makes recommendations for the use of new agents. If there is clear evidence that regimens are equivalent in terms of the major outcome of importance (usually survival), the Committee only approves the least costly regimen. More expensive agents are only available for restricted indications when the standard regimen would not be medically appropriate.

SCREENING PROGRAMS

Ontario Breast Screening Program—Information and Data Collection

Recommendation

To assist CCO in developing a strategy to achieve coverage targets for the Ontario Breast Screening Program (OBSP), the Ministry should examine ways of making available the mammography information it maintains on the OBSP's target population.

Current Status

In 1999, CCO obtained access to the Ministry's Registered Persons Database after signing an agreement about its use and the use of hospital data through the Canadian Institute of Health Information to enhance the quality of the Ontario Cancer Registry.

CCO requested approval from the Ministry to use the data for a linkage between the OBSP database and the Ontario Cancer Registry in order to identify all cancers occurring in women screened by the OBSP. CCO indicated that once this approval is received, CCO intends to initiate a request to explore how the Registered Persons Database and other ministry databases can be made available to CCO for program planning uses.

Ontario Breast Screening Program—Effectiveness Measures

Recommendation

CCO should enhance its data collection systems to enable it to assess the effectiveness of the OBSP.

Current Status

According to CCO, a process to routinely capture further information for breast cancers detected by the OBSP, such as pathology/cytology reports and regional cancer centre reports, was developed. This will ensure more complete data on tumor size, nodal status, and metastasis information of breast cancers and thereby allow the evaluation of program effectiveness. Routine linkages with the Ontario Cancer Registry were pending ministry approval.

Ontario Breast Screening Program—Cancers Missed at Screening

Recommendation

To improve the effectiveness of the OBSP, Cancer Care Ontario should:

- *develop protocols for informing radiologists and radiology co-ordinators of the results of radiological panel reviews; and*
- *monitor cancers missed at screening by site and responsible radiologist and take appropriate follow-up or corrective action.*

Current Status

Substantive action has been taken on this recommendation. Protocols for informing radiologists and radiology co-ordinators of the results of radiological panel reviews were developed. According to CCO, the films from missed-at-screening interval cancers are being reviewed by the reading radiologist with the radiology co-ordinator.

Ontario Breast Screening Program—Standards and Guidelines

Recommendation

To help ensure that breast screening centres are delivering services in a consistent and effective manner, CCO should:

- *monitor the performance of screening centres and, where standards are not being met, investigate and take corrective action as necessary; and*
- *develop mechanisms to ensure that high-risk women are identified for screening.*

Current Status

CCO stated that routine screening outcomes were calculated for the entire province, for each OBSP screening centre, for individual nurse examiners, and for radiologists up to 1998. As a result:

- Information for each screening centre was sent to each region's regional administrator, medical co-ordinator, and radiology co-ordinator.
- Individual nurse examiner results were distributed to the provincial nurse examiner and to the appropriate regional administrator.
- Individual radiologist results were sent to the provincial radiologist-in-chief and to the appropriate regional radiology co-ordinator. After reviewing these results at the regional radiology co-ordinators' quarterly meetings, the co-ordinators take the results to all reading radiologists in their regions.

An ad hoc group met and reviewed the scientific evidence to provide CCO with guidance in the review of the scientific evidence and OBSP's role in screening high-risk women who are below the age of 50. According to CCO, the OBSP Strategic Management Committee put the issue of screening women under the age of 50 on its agenda for discussion and was to give advice to the OBSP.

Ontario Breast Screening Program—Interval Breast Cancers

Recommendation

To help ensure that OBSP outcomes are reported as accurately as possible and that those outcomes remain within acceptable standards, CCO should:

- *ensure that all relevant CCO data are included when calculating OBSP interval cancer rates; and*
- *assess the impact of clinical breast exams on interval cancer rates.*

Current Status

We were advised by CCO that a process was developed for conducting routine linkages between the OBSP and the Ontario Cancer Registry. In 1998, all data up to 1996 were linked. Data up to 1998 will be linked once written authorization is received from the Ministry.

Cervical Screening Program

Recommendation

To enable CCO to develop a more effective cervical screening program and to be in a position to better monitor the achievement of objectives, the Ministry should:

- *facilitate access to appropriate cervical screening information; and*
- *develop protocols to use data for statistical purposes while safeguarding the privacy of patient information, including information received from private laboratories.*

Current Status

The Ministry indicated that it was continuing to work with CCO to identify the data elements CCO wishes to receive from the Ministry's laboratory information system. This is an intermediate phase while work on the CCO/private partnership information system is completed. The Ministry's Memorandum of Understanding with CCO for access to the Registered Persons Database and its use by CCO contains stringent protocols with respect to the use of personal health information for statistical purposes.

QUALITY ASSURANCE

Recommendation

To enable it to ensure the delivery of high-quality cancer care in Ontario and to identify and act on significant variances among regional cancer centres (RCCs), CCO should:

- *expedite the development of performance indicators and co-ordinate RCC quality improvement activities;*
- *ensure that all RCCs consistently report quality improvement activities; and*
- *take timely corrective action as necessary.*

Current Status

We were advised by CCO that at its monthly meetings CCO's Quality of Care and Ethics Committee oversees the development of performance indicators and monitors current indicators. At the time of our follow-up, the indicators included measures of cancer centre and cancer system workloads and responses to workloads. For example:

- A patient satisfaction survey was being developed for all regional cancer centres.
- Indicators of regional cancer centre compliance with the capture of tumor-stage information, and tumor histology were provided to all cancer centres at regular intervals.
- Work was underway to measure compliance with practice guidelines and to determine the best performance indicators for the Breast and Cervical Screening programs.

According to CCO, the Quality Advisory Committee discusses the quality improvement initiatives at each RCC and this information was to be posted on CCO's Intranet site. Through the sharing of Canadian Council on Health Services Accreditation's reports among the centres, issues of common concern can be identified and co-ordinated quality improvement initiatives can be achieved.

CANCER PREVENTION

In our 1999 Annual Report, we indicated that we would follow up on CCO's progress in this area in the near future.

Current Status

We were advised that CCO established a prevention and screening network in each region of Ontario. The intent is to bring together local organizations to identify priorities and to plan, implement, and co-ordinate local programs. The Ontario Network for Cancer Prevention links these regional networks with Cancer Care Ontario and provincial stakeholders.

According to CCO, cancer prevention activities were being implemented on a limited basis due to funding constraints. Long-term implementation plans for priority cancer prevention activities were developed and were awaiting Ministry funding.

In 2000, CCO published *Ontario's Cancer Prevention Blueprint 2000*. The Blueprint states that "the reduction of exposure to the causes of cancer must be made a priority" since the majority of cancers can be prevented. Priorities for cancer prevention include tobacco control, nutrition, physical activity, healthy body weight, and reducing exposure to occupational and environmental carcinogens.

According to the Blueprint, CCO's initial targets for cancer prevention are tobacco, diet, and physical activity because "they are the most important targets for cancer prevention" based on the total number of cancers attributable to these factors. In the area of tobacco control, activities include:

- CCO staff working closely with the Ministry and its partners on the Ontario Tobacco Strategy; and
- participating in the Ontario and National campaigns for Action on Tobacco.

With respect to diet and cancer prevention, CCO's activities include:

- supporting the joint efforts of the Ontario Collaborative Group on Diet and Cancer, which has reviewed scientifically based guidelines for diet and physical activity; and
- assisting the Ministry in planning for a broadly based nutrition strategy and a network to support intervention development, surveillance, and evaluation of nutritional interventions.

Scientific reviews were also undertaken on the benefits of regular physical activity in reducing the risk of cancer, as well as on cancer risk associated with various environmental exposures. In addition, we were advised by CCO that is has established working relationships with other chronic disease prevention initiatives that share similar risk factors (for example, heart disease, stroke, and diabetes).

MANAGING RESOURCES

Managing Research

Recommendation

To help foster cost-effective initiatives among cancer research groups in Ontario and to generate appropriate information for selecting researchers, programs, and initiatives to support, CCO should:

- *develop standard processes for approving, monitoring, and evaluating research projects; and*
- *better co-ordinate the research efforts of the regional cancer centres and monitor the research activities of other organizations.*

Current Status

We were advised by CCO that it has undertaken a number of initiatives with respect to research:

- A searchable database for research projects was developed. A complete data set exists for the 1998/99 fiscal year, and the data set for the 1999/2000 fiscal year was nearing completion.
- Research workshops on supportive care and occupational and environmental carcinogenesis were organized and held in 1999/2000.
- An inter-centre lecture series was established to improve dissemination of research findings between centres.
- A proposal for major restructuring of the research division was being developed to enhance co-ordination of research between centres.

Cancer Surveillance Systems

Recommendation

The Ministry should clearly define CCO's mandate regarding cancer surveillance and should ensure that CCO has the authority it requires to meet that mandate.

To improve the usefulness of the Ontario Cancer Registry, CCO should further develop standards and guidelines for the type of data to be collected.

Current Status

Substantive action has been taken on these recommendations. The Memorandum of Understanding between CCO and the Ministry signed in November 1999 defines CCO's role in cancer surveillance. According to CCO, along with other related initiatives, it was implementing comprehensive standards for cancer registries that are promulgated by the North American Association of Central Cancer Registries.

Financial Controls—Potential Conflicts of Interest

Recommendation

To help ensure that the right goods and services are purchased at the right prices and to avoid potential conflicts of interest, CCO should:

- *eliminate actual or potential conflicts prior to awarding contracts; and*
- *inform vendors that proposals should detail all incentives and benefits.*

Current Status

According to CCO, since 1999:

- CCO's conflict-of-interest policy has been reinforced and posted on CCO's Intranet site. This policy will be amended to reflect the various applicable clauses in Management Board Secretariat's conflict-of-interest policy, which CCO received in February 2001. The revised policy will come into effect after it receives approval from the various committees and the board of CCO.
- CCO's finance department has reviewed all large contracts for goods and services. For example, the contracts for supply of radiation equipment have been negotiated with suppliers through centralized committees; and large information service contracts are centrally negotiated in conformity with Management Board Secretariat guidelines.

Financial Controls—Administration of Consulting Contracts

Recommendation

To better ensure that value for money is received from consultants, CCO should:

- *enforce compliance with its policy that written explanations be obtained where competitive acquisition policies are not followed;*
- *require that contracts contain measurable deliverables, rates, time frames, and termination clauses; and*
- *ensure written evaluations are prepared on the work performed by consultants.*

Current Status

Substantive action has been taken on this recommendation. According to CCO, since the beginning of 2000, all consultant contracts have been reviewed by the finance department. Managers were being requested to keep written explanations where competitive quotes were not available or could not be obtained. The finance department was also ensuring that contracts contained measurable deliverables.

Cancer Care International

Recommendation

In future:

- *the Ministry and CCO should ensure that proper approvals are obtained for the creation of any subsidiaries and their disposition;*
- *start-up costs should be kept to a minimum; and*
- *expenses should be properly documented and supported.*

Current Status

The Memorandum of Understanding between the Ministry and CCO incorporated the requirement for appropriate approvals. In addition, we were advised by CCO that there have not been any new subsidiaries created since the time of our last audit.

MINISTRY OF HEALTH AND LONG-TERM CARE

4.09–Institutional Health Program–Transfer Payments to Public Hospitals

(Follow-up to VFM Section 3.09, *1999 Annual Report*)

BACKGROUND

The Ministry's Institutional Health Program provides funding to public hospitals for the costs of operating their facilities. Each hospital's board of directors is responsible for the delivery of services by the hospital. The Ministry and hospital boards are both responsible for ensuring compliance with legislation and regulations. The *Public Hospitals Act* provides the Minister with the authority to impose terms and conditions for financial assistance provided to hospitals.

In the 1998/99 fiscal year, the Ministry provided $7.1 billion to operate public hospitals and $248 million for one-time costs incurred by hospitals in implementing the directives of the Health Services Restructuring Commission (HSRC).

In addition, the Ministry's Health Capital Program provides financial assistance to hospitals for the cost of approved capital construction. In the 1998/99 fiscal year, the Ministry provided approximately $52 million to hospitals for capital construction and $49 million for HSRC-directed capital projects. The key findings from our 1999 audit were that the Ministry did not have in place:

- an accountability framework clearly delineating the roles and responsibilities of both the Ministry and the hospitals;
- a mechanism to periodically monitor and assess the impact of hospital restructuring;
- systems to fund hospitals based on the demand for services;
- consistent criteria for providing financial assistance to hospitals experiencing financial difficulties; and
- indicators to measure and report on the performance of the public hospital system in delivering quality services.

Examples of audit findings that can be linked to the foregoing problems included:

- Based on hospital estimates, the capital costs for hospital restructuring would increase to approximately $3.9 billion from the $2.1 billion originally estimated by the HSRC.
- One hospital reported that, due to a shortage of operating funds, it was not fully utilizing new facilities that cost approximately $110 million to construct. Four of its eight operating rooms were idle while local residents continued to travel to other centres for specialized care.

We made a number of recommendations for improvement and received commitments from the Ministry that corrective action would be taken.

CURRENT STATUS OF RECOMMENDATIONS

Based on information that we received from the Ministry of Health and Long-Term Care, the Ministry has taken some action on all the recommendations we made in our 1999 report. The current status of each of our recommendations is outlined below.

HOSPITAL FUNDING

Allocation of Operating Grants

Recommendation

To better reflect the changing nature of hospital services and to ensure equitable funding to public hospitals, the Ministry should:

- *improve the hospital funding mechanism, taking the demand for services into account; and*
- *expand the funding mechanism to encompass other significant hospital activities such as outpatient clinics and emergency care.*

Current Status

The Ministry has indicated that, in December 2000, the Cabinet approved in principle an Integrated Population-Based Allocation (IPBA) funding model. According to the Ministry, the IPBA model takes into account the predicted volume of services and the rate or cost to provide the services. The model also takes into account factors that affect hospital efficiency, reflecting a more progressive method of hospital funding.

According to the Ministry, at present IPBA deals with expenses and activities related to acute, in-patient, day surgery, and chronic care. This represents approximately 66% of hospital direct costs. Hospital activities in emergency service will follow next. Currently, the Ministry's intention is to use IPBA for incremental funding and to achieve equity over a number of years. It will take approximately 5 to 10 years before the funding model is fully operational and used for the full hospital allocation. The Ministry advised us that over this period and beyond it, the data feeding into the model and the model's mechanisms for making appropriate adjustments to the data will be continuously refined. Hospitals are expected to use this time to improve their performance and work to align their calculations of expected service volume and expenses as closely as possible with actual figures. In keeping with this, the Ministry used IPBA in July 2001 to distribute approximately $100 million in new funding to Ontario hospitals.

Transition Funding

Recommendation

To ensure future transition funding is provided in a more equitable manner, the Ministry should review and revise where necessary the criteria for providing assistance to hospitals experiencing financial difficulties.

Current Status

The Ministry indicated that since the 1999/2000 fiscal year, it has provided over $850 million to modernize, expand, and stabilize the hospital sector. Using IPBA for transitional funding would address, to a great extent, any concern about inequity in application. IPBA takes into consideration hospital cost and volume efficiencies. In the short term, the new funding model will only be applied to new hospital funding. According to Ministry, one of the benefits of this approach is that inefficient hospitals in a deficit position would focus on improving their efficiency. The incentives inherent in the IPBA of rewarding efficient hospitals would put hospitals on an even playing field. When fully implemented, IPBA will eliminate the need for transitional funding.

Growth Funding

Recommendation

The Ministry should refine its funding formula to ensure that financial assistance to hospitals experiencing patient growth is allocated appropriately.

Current Status

According to the Ministry, the IPBA model can and will be used to fund the impact of growth, even in the short term. A long-standing issue has been that communities of similar size and demographic characteristics may differ widely in their utilization of hospital services. The volume component of the IPBA is meant to address this issue by encouraging hospitals in regions with high rates of service utilization to work together to better manage utilization rates. The volume component looks at the population of each region and, using past utilization patterns (adjusted for age, gender, and other factors), estimates the impact of population growth in a given year. The formula also takes into account the volume of services provided to the residents of a region and identifies areas where underservicing appears to be a problem.

Emergency Ward Funding

Recommendation

To ensure the efficient and effective use of temporary emergency ward funding, the Ministry should evaluate the effectiveness of all emergency ward funding and initiatives on reducing overcrowding in hospital emergency rooms.

Current Status

The Ministry indicated that in 1999 it responded to the Final Report of the Ontario Hospital Association Region 3 Emergency Services Working Group and released new standards on the use of "redirect consideration and critical care bypass." In addition, requirements to use a common triage tool, the Canadian Triage and Assessment Scale, and to triage all patients in emergency departments within 15 minutes of arrival were introduced. A ministry survey in 1999 showed 90% overall compliance with the standard. The remaining 10% of departments were working towards compliance.

Reviews of hospitals' use of redirect consideration/critical care bypass, particularly in Toronto/GTA, occurred in conjunction with the introduction of the 10-Point Plan for Toronto/GTA. Ongoing monitoring has continued since that time for selected areas. The Ministry indicated that it intends to replace redirect consideration/critical care bypass as a communication tool in September 2001. Emergency services networks have been established in each region of the province to monitor activities and issues and to provide local solutions as they arise.

In 2001, hospital emergency departments will, for the first time, be a focus of the Hospital Report Card, with a separate report being released in late fall/early winter.

Capital Project Funding

Recommendation

The Ministry should put in place a more rigorous negotiation process to relate operating funds to new, approved facilities.

Current Status

The Ministry indicated that it has developed and communicated to hospitals a new Post Construction Operating Plan process. The process is to document the understanding between the Ministry and a hospital of the hospital's plans for operations upon the completion of a capital project and implementation of service changes. The process is to establish accountability for service volumes, costs, revenues, and anticipated levels and timing of funding adjustments. The funding adjustments process is intended to include discussion between the Ministry and the hospital as adjustments are being made. Through this process, construction projects are expected to move forward with mutual understanding between the Ministry and hospitals.

We were advised by the Ministry that since June 2000, it has continued the development and implementation of the Post Construction Operating Plan process, which involves the following major components:

- negotiation of anticipated service changes on completion of the capital project;
- collection and verification of data using a standardized reporting framework; and
- application of standardized funding methodologies.

ACCOUNTABILITY FRAMEWORK

Recommendation

The Ministry should ensure that an accountability framework that clarifies its expectations of hospitals and their accountability to the Ministry is implemented as soon as possible.

Current Status

The Ministry advised us that, in partnership with the Ontario Hospital Association, it has developed the first-ever accountability framework between the Ministry and hospitals. The framework clarifies the accountability relationship between hospitals and the Ministry and defines roles and responsibilities. It is expected that, over the next 12 to 18 months, the framework will be refined with a focus on defining and agreeing on performance expectations and results.

The *Public Sector Accountability Act* (Bill 46) was introduced in the Legislature on May 9, 2001. It sets out balanced budget requirements for the broader public sector, including hospitals; some long-term care facilities; boards of health; and many ministry agencies, commissions, and boards.

Performance Measurement and Reporting

Recommendation

To better measure and, where necessary, act on the performance of public hospitals, the Ministry should:

- *identify a comprehensive set of performance indicators and ensure these indicators are incorporated into hospital operating plans; and*
- *periodically report on the performance of the public hospital sector in delivering quality services to the public.*

Current Status

According to the Ministry, the next phase in the development of the accountability framework will include dialogue with hospitals regarding the development of outcome indicators to be included in hospital operating plans.

The Ministry is working in partnership with the Ontario Hospital Association to develop and implement the Ontario Hospitals Acute Care Report Card, which contains indicators to measure hospital performance in clinical utilization and outcomes; financial performance and conditions; patient satisfaction; and systems integration and change. Pilot testing of the initial Report Card was completed in 1999, and the results of the 2000 Report Card are expected during 2001.

MINISTRY MONITORING

Operating Plans

Recommendation

To enhance the hospital operating plan process as an accountability and monitoring tool, the Ministry should:

- *ensure that operating plans are submitted, reviewed, and approved on a timely basis; and*
- *develop documentation standards for the review and analysis of quarterly reports.*

Current Status

The Ministry has been progressively moving towards advancing the timing of operating-plan submissions to enable the Ministry to review and approve plans on a more timely basis. On February 12, 2001, the Ministry released the Operating Plan Requirements Document for the 2001/02 fiscal year. The Ministry provided feedback to all hospitals on July 13, 2001. According to the Ministry, this was an improvement from the previous year's dates.

In June 2001, a Hospital Advisory Group was created to strengthen the Ministry's relationship with hospitals. The group is composed of representatives from hospital boards and administrations across the province and will report directly to the Minister. According to the Ministry, this group will examine hospital sector issues and will work with the Ministry towards stabilizing the health care system within available resources. The Advisory Group has four subgroups, one of which will closely examine performance in the hospital sector. Its mandate includes assessing the operating plan process and related service agreements, hospital report cards, performance targets, and best practices.

Ministry Benchmarking Process

Recommendation

To ensure the benchmarking process is an effective management tool, the Ministry should:

- *review the usefulness of current benchmarks; and*
- *develop processes to share information on best practices.*

Current Status

The Ministry indicated that the following initiatives were underway:

- A Report Card Advisory Committee, made up of representatives from both the Ontario Hospital Association and the Ministry, developed a report card that has data for comparison study, benchmarking, and sharing information practices. The Ontario Hospital Association issued a report card based on the data elements selected by the committee, which used 1997/98 data. The report card was sent to hospitals. A more detailed report card will be issued in the fall of 2001 using updated information.
- The redevelopment and refinement of the Planning Decision Support Tool (PDST) is an ongoing process to improve hospital access to information associated with specific hospitals and potential clinical efficiencies. The PDST 2000 will be made available via a Web site to all hospitals and District Health Councils and to ministry staff. This Web-based application will speed up the dissemination of the tool and the associated benchmarks. It will be followed shortly with PDST 2001.
- The Ministry has provided draft comparative indicators for each hospital by nursing and diagnostic functional centres using 1998/99 data. This allowed hospitals to compare their resource usage with that of other hospitals. The hospitals were requested to comment on the reports, and their comments will be incorporated into future versions of the comparative reports. These reports are being piloted as potential standard reports to hospitals.

Complaint Process

Recommendation

The Ministry should develop protocols that ensure that patient complaints to the Ministry are consistently investigated and resolved on a timely basis.

Current Status

Substantive action has been taken on this recommendation. According to the Ministry, protocols have been developed, and complaints are forwarded to the appropriate ministry regional offices, where they are dealt with in accordance with the quality service standards implemented by the Ontario Public Service as part of its 1998 Quality Service Strategy.

Hospital Accreditation

Recommendation

The Ministry should determine whether hospitals are meeting Canadian Council on Health Services Accreditation standards.

Current Status

Substantive action has been taken on this recommendation. Currently, hospitals are required to specify in their operating-plan submissions the date of their last accreditation award, noting the number of years of accreditation received. Hospitals are also required to submit a copy of the executive summary of the award if there has been a visit from the Canadian Council on Health Facilities Accreditation following the hospital's last operating plan submission.

HOSPITAL RESTRUCTURING

Implementation of Capital Projects

Recommendation

To ensure the timely completion of capital projects to support the hospital restructuring process, the Ministry should work with the hospitals on streamlining the planning and approval process.

Current Status

The Ministry has worked with hospitals to develop Headstart projects to address urgent needs and priority areas for implementation such as Emergency Department and Intensive Care Units. This has given hospitals more time to develop plans for major redevelopment projects.

To allow for the major benefits of restructuring to be achieved earlier, the Ministry indicated that hospitals are encouraged to expedite planning for major project components directed by the Health Services Restructuring Commission.

In fall 2000, the Ministry initiated a Capital Planning and Financing review project to develop recommendations for improving accountability, decision-making, policy development, and project-management functions within the Ministry. A project implementation plan is being developed for these recommendations.

Reimbursement of Restructuring Expenses

Recommendation

The Ministry should ensure that hospital restructuring expenses are reimbursed in a consistent and equitable manner.

Current Status

The Ministry indicated that it is continuing to improve the process for approving hospital claims for restructuring expenses. To enhance hospital accountability for the accuracy and reliability of information, the Ministry is requesting documentation to support restructuring expense claims. However, issues of confidentiality around severance payments still remain, thereby limiting the scope and breadth of review. While ministry staff continue to test the reasonableness of amounts claimed, the Ministry advised us that current funding does not allow for ministry staff to conduct a thorough and complete review in each hospital.

Implementation of Hospital Restructuring

Recommendation

To ensure that the benefits from restructuring are realized, the Ministry should:

- *develop a standard process to determine the proper amount of funding required to support program transfers and amalgamations;*
- *develop a mechanism to periodically monitor and assess the impact of restructuring; and*
- *take any necessary corrective action.*

Current Status

We were advised by the Ministry that it has finalized the methodology for calculating the funding value of program transfers and has revised its approach to encourage upfront agreement between hospitals involved in program transfers. The Ministry indicated that the methodology is used as a check on mutually developed transfers and as a tool for arbitrating disputes; it is also used to recalculate and supplement previous transfers. Service monitoring continues as part of the established process for reviewing hospitals' annual operating plans.

MINISTRY OF HEALTH AND LONG-TERM CARE

4.10–Ontario Substance Abuse Bureau

(Follow-up to VFM Section 3.10, *1999 Annual Report*)

BACKGROUND

The Ontario Substance Abuse Bureau (the Bureau), which is part of the Ministry of Health and Long-Term Care's Community and Health Promotion Branch, is responsible for funding addiction treatment services in Ontario. The Bureau's mandate is to reduce or eliminate substance abuse and other addictive behaviours.

The Bureau funds a range of treatment programs for people with substance-abuse problems. During the 1998/99 fiscal year, the Bureau provided transfer payments totalling approximately $94.5 million to 158 drug and alcohol addiction treatment agencies and approximately $3.5 million for problem-gambling initiatives.

In our 1999 audit, we found that the Ministry did not have adequate processes in place to ensure that bureau-funded addiction treatment agencies were providing quality treatment services in an economic and efficient manner. The delivery of addiction treatment services in Ontario has been the subject of a number of studies, yet action on recommendations has been slow. We found in particular that:

- the Ministry had not monitored whether its initiatives were increasing capacity to treat substance abuse; and
- the Ministry was not adequately ensuring that services were provided economically and efficiently.

In addition, the Ministry did not have an appropriate transfer-payment accountability framework in place to hold agencies accountable for the services provided and the prudent management of the funds they receive.

The Ministry also did not have adequate procedures in place to measure and report on its effectiveness in preventing, reducing, or eliminating substance abuse, problem gambling, and other addictive behaviours. Our major concerns were that the Ministry:

- had not developed performance expectations or benchmarks for treatment agencies;
- was not adequately monitoring the performance of treatment agencies regarding costs and outcomes;
- was not sufficiently reviewing the accessibility of treatment services and was not monitoring waiting times to ensure that all clients were receiving treatment that met their needs on a timely basis; and
- did not have program standards relating to quality of service.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on the information provided by the Ministry, some action has been taken on all of the recommendations made in our 1999 report. The current status of each of our recommendations is outlined below.

ECONOMY AND EFFICIENCY

Restructuring Addiction Treatment Services

Recommendation

To ensure that the treatment services funded by the Ministry are cost effective and meet the needs of their clients, the Ministry should:

- *act on those recommendations that it has acknowledged will improve service delivery; and*
- *develop a timetable for restructuring treatment services.*

Current Status

The Ministry advised us that the Bureau led the process of implementing the recommendations of the integrated service plans of the 16 district health council areas through the establishment of local implementation committees. The committees provided advice to the Ministry regarding projects to be funded that addressed the recommendations. Approximately 30 such projects were funded in the 2000/01 fiscal year.

The Ministry indicated that seven mergers of service providers were proceeding in the 2001/02 fiscal year. In addition, two small programs were integrated with another agency.

With regard to the recommended timetable, the Ministry indicated to us that the restructuring of treatment services is an ongoing process. As additional restructuring opportunities arise, the Ministry intends to work with the treatment agencies to merge organizations and services.

Treatment Efficiency

Recommendation

To help ensure that its initiatives to increase treatment efficiency are successful, the Ministry should assess the impact of these initiatives on service capacity and take corrective action where necessary.

Current Status

The Ministry indicated that staff responsible for the Drug and Alcohol Registry of Treatment (DART) and the Alcohol Treatment Information System (DATIS) are continuing to meet to develop common reporting on capacity, utilization, and lengths of stay in addiction services.

The provincial report from DATIS scheduled for 2000 was still being completed. Admission and discharge criteria training were completed and recommendations for next steps and monitoring were being developed. Training for front-line staff on the common assessment tools was completed, and agencies were implementing the common assessment tool protocol.

Funding

Recommendation

To help ensure that services are provided economically and efficiently, the Ministry should:

- *assess whether the current distribution of funds is commensurate with the value of the services provided;*
- *compare the costs to provide services among similar treatment agencies; and*
- *develop a plan to redress any funding inequities.*

Current Status

The Ministry indicated that the new DATIS software will collect information for monitoring admissions to various types of agencies including residential services. In November 2000, the Minister announced an increase of $2.2 million for ministry-funded addiction agencies across the province to assist with operational pressures. An additional $3 million to implement addiction-treatment system and service enhancements across the province had been allocated on a regional basis, taking previous funding inequities and service gaps into account.

COMPLIANCE

Agency Accountability

Recommendation

To better hold addiction treatment agencies accountable for the services provided and the prudent management of the funds they receive, the Ministry should ensure that all basic elements of a transfer-payment accountability framework are appropriately addressed.

Current Status

According to the Ministry:

- The service agreements were being implemented. Collection of information for routine outcome monitoring is to be part of the new software being developed for DATIS.
- Discussions were to be held with the Centre for Addiction and Mental Health to determine the most efficient and effective method of implementing cost monitoring. The Ministry was monitoring the timeliness of agencies in submitting their reports to DART and DATIS.
- The Ministry was conducting documented site visits to agencies on an ongoing basis and reviewing annual audited financial statements and settlement forms from agencies.
- Monitoring of progress on recommendations resulting from program reviews was continuing. This had resulted in the termination of funding at one agency. Since 1999, five program reviews had been completed and an additional one was being planned.

The Ministry was revising its operating manual for transfer-payment agencies to more clearly articulate ministry expectations and best practices. The revisions were expected to be completed by fall 2001.

Financial Approvals and Reporting

Recommendation

To improve the usefulness of the financial approval and reporting process of addiction treatment agencies, the Ministry should:

- *review and approve budgets on a timely basis;*
- *ensure that agencies submit budgets for approval that accurately reflect agency spending;*
- *monitor all other revenue sources related to bureau-funded programs; and*
- *recover any agency surpluses.*

Current Status

According to the Ministry, approximately 95% of the agency operating plans for the 2000/01 fiscal year were approved before the end of the fiscal year. The remaining 5% were approved in the first quarter of the 2001/02 fiscal year.

The Ministry was monitoring agency compliance with its requests for operating plans, audited financial statements, and settlement forms. Approved budgets were being compared with actual spending through the settlement process.

The Ministry was following up on agencies with other sources of funding to ensure that ministry funds were being used appropriately and surplus funds were recovered. Recovery was being done on an annual basis.

Personal-needs Allowance

Recommendation

To ensure that personal-needs allowance funds are properly allocated and utilized, the Ministry should:

- *compare the funding allocated to all recovery homes to an accurate inventory of bureau-funded beds; and*
- *reconcile the funding to actual expenditures and recover any surpluses.*

Current Status

In July 2000, government regulations were revised to permit certain residents in recovery homes to maintain their benefits, including their personal-needs allowances. Rather than including funding for personal-needs allowances in each recovery home's budget, the Ministry is now paying the allowance for those clients who are eligible based on invoices from recovery homes. The Ministry has indicated that it will monitor the situation and make adjustments as necessary.

Problem Gambling

Recommendation

To ensure that funding for problem gambling is properly managed and used as intended, the Ministry should:

- *develop service agreements for and require the submission of project reports from agencies providing treatment for problem gambling; and*
- *base funding for problem gambling services on the need for those services.*

Current Status

According to the Ministry, service agreements were being implemented in all agencies. The Ministry also indicated that through agency operating plans and DATIS, it was monitoring the activities of agencies offering problem gambling treatment and public awareness services.

MEASURING AND REPORTING EFFECTIVENESS

Performance Measurement

Recommendation

To help ensure that addiction treatment services are provided efficiently and effectively, the Ministry should use cost and outcome information to:

- *develop and implement performance expectations and benchmarks for treatment agencies; and*
- *measure and report on the effectiveness of the Bureau and the addiction treatment system.*

Current Status

We were advised that the pilot outcome and cost reports, which were submitted to the Bureau in July 2000, have been reviewed by the Ministry and will be released to ministry field staff.

The information in these outcome and cost reports will assist the Ministry in establishing benchmarks for admission to and discharge from addiction treatment agencies. For example, one finding was that there were no significant differences between the outcomes of residential and non-residential services. The Ministry intends to use this finding to reinforce agency use of the admission and discharge criteria that have been developed. Another finding showed that more data was required to set benchmarks for particular types of clients in order to make comparisons across agencies.

The Ministry indicated that the new software being developed for DATIS will record baseline information for outcome monitoring. The software will also have the components required for cost monitoring. Due to its complexity, cost monitoring requires additional discussions before it can be implemented.

The Ministry was tracking the number of clients and admissions to agencies through the agencies' annual operating plans.

Treatment Availability—Accessibility

Recommendation

To ensure that all clients seeking treatment for addictions are adequately served, the Ministry should clearly define client populations with special needs and ensure that services are provided to meet those needs.

Current Status

The Ministry indicated that District Health Councils' integrated plans submitted in January 2000 included information about populations with special needs in relation to their districts and identified strategies to address those needs. The Ministry expects that agencies will report on agreed-upon services, including those identified for specific populations.

Strategies were being implemented to provide services to populations that integrated service plans identified as not having been well served by the addiction treatment system in the past. The monitoring of progress in accessing treatment by these populations is to be done through agency operating plans and DATIS.

The Ministry indicated that it has developed a strategy for people who are dependent on heroin and other opioids and is developing a diversity-and-access strategy.

Treatment Availability—Waiting Times

Recommendation

To ensure that the Drug and Alcohol Registry of Treatment (DART) contains the data needed by the Bureau to properly monitor waiting times and the availability of services, the Ministry should:

- *ensure all treatment agencies submit treatment availability information and validations of treatment services to DART; and*
- *regularly review waiting times for all agencies to assess whether there are any regional inequities in available treatment services and as indicators of the need for agency reviews.*

Current Status

The Ministry indicated that it was monitoring agency compliance with the reporting requirements for DART, DATIS, and waiting times. Waiting times are currently reported to DART, which enables DART to direct clients to agencies having shorter waiting lists. The Ministry advised us that waiting lists were growing across the province due to insufficient system capacity and/or resources.

Monitoring Agencies—Program Standards

Recommendation

To help ensure that high-quality services are provided by addiction treatment agencies, the Ministry should:

- *develop standards against which programs can be evaluated; and*
- *implement a regular program review function, focusing on those agencies where the risk of non-compliance is greatest.*

Current Status

Umbrella and sector groups of the addiction treatment system were meeting to develop self-regulating standards for the field.

The Ministry was conducting annual agency visits to identify programs at risk of non-compliance. In addition, formal program reviews were conducted in response to complaints about agencies or when ministry monitoring indicated the need for a review.

The first follow-up to a review occurs six months after an agency has been given the results of the review. Additional follow-ups are arranged as required. We were advised that agencies that have received the results of reviews and follow-ups have shown great improvement.

Monitoring Agencies—Complaints

Recommendation

To ensure that complaints are dealt with appropriately, the Ministry should:

- *develop adequate procedures to deal with the complaints it receives;*
- *require treatment agencies to inform the Bureau of any complaints they receive and how those complaints were resolved; and*
- *establish program standards for agency complaint procedures and client rights.*

Current Status

The Ministry was following up on complaints received, and four additional program reviews had been initiated as a result of complaints.

The Ministry indicated that the documentation of complaints received at the Ministry was standardized. A mechanism was being developed to track the information centrally. A standardized form for agencies to report serious incidents and complaints was being implemented. Expectations of agencies for internal complaint processes and client rights was to be included in the operating manual, which was being revised.

OTHER MATTER

Prevention

Recommendation

To help ensure that prevention activities are having the intended result of decreasing addictions to alcohol and drugs, the Ministry should:

- *clarify the role of the Ontario Substance Abuse Bureau with respect to prevention; and*
- *assess the effectiveness of all of its current prevention efforts.*

Current Status

The Ministry has indicated that a provincially funded public-awareness program was developed by the Responsible Gambling Council (Ontario). Implementation in the 2001/02 fiscal year is dependent on agreement between the government and the Council on the content of the public awareness program.

The Bureau was collaborating with the Public Health Branch, the AIDS Bureau, and the Health Promotion Branch on issues related to prevention and harm reduction. The Ministry was promoting harm reduction in all of its treatment programs. A number of agencies had taken part in local training on harm reduction. In addition, agencies across the province were involved in local prevention and early intervention activities related to drug and alcohol use.

MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING

4.11–Non-Profit Housing–Capital Reserves

(Follow-up to VFM Section 3.11, *1999 Annual Report*)

BACKGROUND

At the time of our 1999 audit, the Ministry of Municipal Affairs and Housing was responsible for administering the province's social-housing programs, including the non-profit housing program. Since January 1, 1998, municipalities have been responsible for funding the costs of social housing programs. Under the *Social Housing Reform Act, 2000*, the Ministry transferred all 84,000 units of public housing to municipal service managers on January 1, 2001.

Under operating agreements with each provider, the Ministry required a portion of the annual operating subsidy to be contributed to a separate capital reserve fund established by the provider. At the end of 1998, non-profit housing providers held capital reserves estimated at $340 million. As of March 31, 1999, the province's share of mortgage guarantees on non-profit housing properties totalled about $7.5 billion. These guarantees remain the responsibility of the province.

In our 1999 audit, we concluded that the Ministry had not taken sufficient action to ensure that non-profit housing providers prudently managed their capital reserve funds and properly maintained their assets. We were particularly concerned that many non-profit housing providers:

- had not prepared and followed preventive-maintenance plans and long-term capital plans that are based on competent assessments of the condition of their assets; and
- had not pooled capital reserve funds or employed other investment strategies to improve by millions of dollars the income earned on reserve funds and to reduce the incidence of borrowing from reserve funds for operating purposes.

The Ministry agreed with our recommendations and indicated that it would encourage and assist providers to better manage their assets and capital reserve funds using approaches acceptable to providers and to municipalities.

In 2001, implementation plans were developed for the transfer of responsibility for the remaining social-housing programs, including federal programs, to 47 service managers (Consolidated Municipal Service Managers or District Social Service Administration Boards). Transfer is to be completed by June 30, 2002. By then, municipalities will be accountable for all social-housing programs. The province will continue to manage the relationship with the federal government. The province's other responsibilities will include setting standards to ensure service levels are maintained; ensuring basic rules regarding eligibility and benefits for individuals are fair and consistent across the province; and administering supportive housing in buildings where all the units are for persons with special needs.

CURRENT STATUS OF RECOMMENDATIONS

Based on information that we received from the Ministry of Municipal Affairs and Housing, the Ministry has taken some action to address a number of the recommendations we made in our 1999 report. The current status of each of our recommendations is outlined below.

MONITORING PROVIDER PERFORMANCE AND COMPLIANCE

Recommendation

To better ensure that non-profit housing providers are in sound financial condition and are complying with their operating agreements and related directives, the Ministry should use available information to track the progress of regional offices in addressing identified non-profit housing provider deficiencies.

Current Status

The Ministry indicated that while efforts have been made to effect changes in the non-profit housing information system, they proved to be expensive and impractical given other priorities, such as the transferring of public housing to municipalities and year-2000 compliance. However, to the extent that the necessary information can be easily extracted from the existing system, the Ministry intends to track the progress of regional offices in addressing identified deficiencies. As well, the Ministry intends to:

- continue to monitor serious problems with providers through the Projects in Difficulty tracking process and ongoing operational reviews;
- establish policies and procedures for risk management and recommend a process for dealing with projects with serious problems; and
- continue to develop a process for a risk-management centre.

ESTABLISHING CAPITAL PLANS AND PRIORITIES

Recommendation

To ensure that capital reserve funds meet priority needs and are spent prudently, the Ministry should:

- *require non-profit housing providers to prepare multi-year capital plans based on reliable assessments of the condition of their properties; and*
- *provide clear direction to non-profit housing providers on good practices for establishing capital expenditure priorities and for preparing business cases to justify major capital expenditures.*

Current Status

The Ministry indicated that it fully supports this approach and agrees that multi-year capital planning, prioritization, and business cases are good practices. In that regard, the Ministry stated that it has decided to:

- Establish a framework for best practices and benchmarking costs and revenues, to be implemented beginning in 2002. The cost and revenue benchmarks are to be used by non-profit providers as part of the reform of the programs established in the *Social Housing Reform Act* and will establish the level of funding for housing providers.

- Include best practices for capital-reserve management in its benchmarking and best practices framework. The Ministry is working with housing providers and service managers on the development of a best practices Web-based tool to assist housing providers to efficiently manage their projects.
- Include best practices on capital reserve planning in its guide to the reformed operating framework.
- Link the Provincial Auditor's recommendation to the proposed program reforms currently being assessed and analyzed by the Ministry.

The Social Housing Services Corporation (SHSC) will be responsible for the development of investment policies to be followed by housing providers and the development and delivery of information and training on best practices on capital reserve planning and budgeting.

The Ministry commissioned an independent study to review the adequacy of reserve funds and to make recommendations for improving housing providers' capital-planning and reserve-fund management. The Ministry received preliminary results from this study that confirm the need to improve capital-planning and maintenance practices. The report was expected before the end of 2001.

INVESTMENT OF CAPITAL RESERVE FUNDS

Recommendation

To improve investment returns on capital funds and thereby reduce the need for additional future government funding for capital improvements to non-profit housing stock, the Ministry should, as soon as possible:

- *require non-profit housing providers not already doing so to pool their capital reserve funds and to have them professionally managed; and*
- *encourage non-profit housing providers to use capital plans for cash flow projections of future capital outlays to help optimize the mix of investments and maturity available to them.*

Current Status

We were advised by the Ministry that pooling of capital reserve funds will be mandatory under the *Social Housing Reform Act* and that a directive was issued in November 1999 reminding non-profit housing providers of the ministry policy regarding investments. The directive required that the providers examine their investments and their investment strategies and give consideration to preparing a capital plan for expenditures from reserves. The Ministry indicated that it was engaging a consultant to assist in establishing the pooling system for investing capital replacement reserves.

UNAUTHORIZED USE OF CAPITAL RESERVES

Recommendation

To reduce the incidence of borrowing from capital reserve funds which will jeopardize the ability of non-profit housing providers to pay for future capital repairs, the Ministry should:

- *more thoroughly assess the underlying reasons why non-profit housing providers have borrowed from and not restored their capital reserve funds; and*

- *ensure that non-profit housing providers that have borrowed from their capital reserves develop and implement appropriate plans for restoring the reserve funds as quickly as possible.*

Current Status

The Ministry engaged a consultant to review the procedures used by regional offices to identify and deal with providers with underfunded capital reserves. Guidelines were developed for use by the regional offices to assist in developing strategies and repayment plans for projects that have deficits and underfunded capital reserves. We were advised by the Ministry that it had implemented a tracking-and-reporting system based on the recommendations in the consultant's report.

PREVENTIVE MAINTENANCE AND INSPECTION

Recommendation

To better ensure that non-profit housing providers properly maintain the condition of their properties and avoid costly, premature, major repairs or replacements, the Ministry should:

- *re-emphasize the expectations under the operating agreement for non-profit housing providers to institute standards and practices that preserve their properties, including preventive-maintenance programs;*
- *provide further guidance to non-profit housing providers on best practices such as the checklist for roof inspection and maintenance developed by the Ontario Housing Corporation; and*
- *ensure that any technical audits conducted on non-profit housing providers assess and report on compliance with the* Ontario Fire Code.

Current Status

The Ministry indicated that, since the 1999 audit, it has:

- Reiterated to housing providers the need for preventive maintenance programs through regular operational reviews by its regional offices. The November 1999 Directive on Capital Reserve Funds, which encourages providers to prepare a capital plan for expenditures from reserves, had been implemented.
- Continued to direct housing providers to available resources on preventive maintenance. Those include Ontario Housing Corporation maintenance manuals and housing-sector-association training materials.
- Given housing providers tools, including fire-safety plans and information from the Office of the Fire Marshall, to keep track of whether they are meeting their obligations for checking equipment and maintaining fire standards.

MANAGEMENT BOARD SECRETARIAT

4.12–Year 2000/Information Technology Preparedness

(Follow-up to VFM Section 3.12, *1999 Annual Report*)

We did not follow up on our 1999 review of Management Board Secretariat regarding Year 2000/Information Technology Preparedness because action taken by Management Board Secretariat and the ministries on their own, as well as in response to our Special Report *(Year 2000: The Millennium Bug*, June 1998) and our Value-For-Money review (Year 2000/ Information Technology Preparedness, Section 3.12, *1999 Annual Report*, Fall 1999), ensured that the millenium bug had not significantly affected government information technology systems.

MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES

4.13–Accountability Framework for University Funding

(Follow-up to VFM Section 3.13, *1999 Annual Report*)

BACKGROUND

Ontario has the largest university system in Canada with 17 universities and the Ontario College of Art and Design. In the fall of 2000, these institutions had a combined full-time enrolment estimated at about 243,000 students (actual of 237,000 for 1999). In the year ended April 30, 2000, they had revenues of approximately $5.8 billion ($4.8 billion in 1999), of which $2.1 billion ($1.6 billion in 1999) was provided by the Ministry of Training, Colleges and Universities. That same year, universities also received provincial grants for research and capital expenditures that totalled $278 million ($193 million in 1999).

Universities derive their autonomy and academic freedom from their incorporating statutes. The Ministry has no direct authority over university operations or academic affairs. However, the Ministry can and does exercise significant indirect authority over universities by attaching conditions to the funding it provides.

In 1999, we audited the Universities Branch of the Ministry and visited five universities that had volunteered to allow us to assess the extent to which the Ministry's accountability framework for university funding promotes the achievement of objectives including:

- program quality;
- access;
- responsiveness to changing educational needs;
- cost effectiveness in the delivery of programs and services; and
- sound financial management.

CURRENT STATUS OF RECOMMENDATIONS

All of our recommendations were still in the process of implementation as of May 2001. The Ministry had drafted a new accountability framework that had not yet been finalized with the university community. That framework, if fully implemented, would address a number of our recommendations for strengthening university accountability.

In September 2000, the Minister appointed a Task Force on Investing in Students that released its report in February 2001. The report, *Portals and Pathways—A Review of Postsecondary Education in Ontario,* included 33 recommendations. Several of the recommendations are aimed at strengthening accountability and are similar to the recommendations we made in 1999. The Ministry had not yet announced the actions it intends to take on the Task Force recommendations.

On May 9, 2001, the government tabled Bill 46, the Public Sector Accountability Act, which, if passed by the Legislative Assembly, would include universities in new accountability requirements that are consistent with our 1999 recommendations.

The status of each of our 1999 recommendations is set out below.

UNIVERSITY GOVERNANCE AND ACCOUNTABILITY PROCESSES

University Processes

Recommendation

In order to be satisfied that universities have the governance and accountability processes required to ensure they meet provincial postsecondary education objectives, the Ministry should:

- *establish, in consultation with universities, expectations for university governance and accountability and encourage universities to report publicly on their governance and accountability processes;*
- *ensure that each university is periodically assessed against these expectations and where weaknesses are identified, confirm that the necessary corrective action has been taken; and*
- *notify other institutions of any best practices identified and encourage their implementation across the system.*

Current Status

The first two aspects of this recommendation were being addressed as follows. The draft of the new accountability framework specified that each university governing board is expected to undertake a review of its effectiveness every three years and indicate in its university's annual report that the review took place. If the board considers the review unnecessary, it would be expected to submit an explanation to the Ministry.

The proposed Public Sector Accountability Act will require that each university prepare an annual business plan that includes a description of the governance and management structures of the organization; a comprehensive statement of purpose, addressing major functions and operations; a statement of the goals and objectives to be achieved with respect to each major activity; and a description of the actions the organization will take to achieve them. Each university would also be required to prepare an annual report that includes a description of the extent to which the institution achieved its goals and objectives as set out in the business plan.

With respect to the third aspect of our recommendation, the terms of reference for the Task Force on Investing in Students included identifying best practices in the administration and governance of higher education. The Task Force published a separate resource document, *Best Practices in Ontario and Other Jurisdictions,* containing the results of its research into best practices for 12 administrative functions, including financial management and reporting, benchmarking, and governance. The Ministry's approach to encouraging implementation of the identified best practices across the system had not yet been determined.

SETTING MEASURABLE OBJECTIVES

Measuring and Reporting Program Quality

Recommendation

In order to obtain assurance that publicly funded programs are of appropriate quality, the Ministry should:

- *work with universities to establish clear expectations for program quality, including an agreed-upon definition of quality that facilitates comparisons;*
- *identify its requirements regarding independent quality assurance processes and incorporate them into an agreement with the Council of Ontario Universities; and*
- *ensure that universities summarize and report publicly on their internal quality assurance processes, activities and results, and on the results of external reviews.*

Current Status

The draft of the new accountability framework clarifies the Ministry's objectives and goals for the postsecondary education system. However, it does not address all aspects of this recommendation. The document describes existing program quality assurance processes and contains proposals for universities to include in their published annual reports a listing of the programs for which external quality reviews had been conducted in the previous year.

An independent Post-secondary Education Quality Assessment Board was established in 2000. However, the Board had not been given any mandate to monitor the quality of existing programs. It will only advise the Minister on the quality of new degree programs proposed by colleges and new private universities.

In summary, the Ministry did not yet have assurance that program quality is consistently evaluated and compared, to the extent possible, to other universities, or that the results are reported to all interested stakeholders.

Access

Recommendation

In order to ensure that the university system is meeting provincial and student needs, the Ministry should:

- *develop indicators that measure the extent to which its universities program has met its accessibility objectives;*
- *obtain the information necessary to reliably forecast capacity and spending requirements;*
- *monitor universities' efforts to reallocate capacity to meet changes in demand and take appropriate action where they are unsatisfactory; and*
- *encourage and monitor universities' efforts to deliver programs in ways that lessen the need for students to rely on financial assistance programs and reduce the time and cost required for students to achieve their educational objectives.*

Current Status

Specific indicators of progress towards the Ministry's accessibility goal were still being worked on according to the draft framework document. The Ministry reiterated its accessibility goal in its *2000/01 Business Plan* and in the draft framework document, and its immediate focus has been on ensuring that there will be sufficient postsecondary capacity to handle the peak enrolment years created by demographic trends and the elimination of grade 13 in 2003.

In August 2000, all universities provided institutional plans that included five-year enrolment growth forecasts. The Ministry has since summarized and compared them to ministry projections based on demographic trends. The plans were also to address such issues as: changes in student demand; specialization; faculty renewal; quality improvement; university-college collaboration; alternative modes of delivery (for example, distance education); and operational efficiencies.

MONITORING THE FINANCIAL HEALTH OF UNIVERSITIES

Recommendation

In order to ensure that Ontario's universities are and remain financially sound, the Ministry should establish clear policies and obtain the resources and information needed to effectively monitor the financial condition of universities at risk and to take any necessary corrective action.

Current Status

The draft framework document describes the process that the Ministry has used for several years to monitor the financial condition of universities. New indicators of financial condition were still being developed and a new Performance and Accountability Unit was being established to improve monitoring of the universities. Timeliness of financial reporting was also still problematic. As the Task Force on Investing in Students concluded:

> The timeliness of the data prevents an analysis of the most current financial position of each institution. This is a major weakness in the Ontario institutional data set because it means that important decisions must be made with outdated data and the problems might be masked or fail to be incorporated into assessments of comparative institutional performance. In addition, members of governing boards and the administrators at each institution are at a disadvantage when reporting on the activities of the current year due to the absence of comparative data from competing institutions.

In conclusion, the Ministry's arrangements to ensure institutions provide reliable financial information on a timely basis had not yet been satisfactorily addressed.

UNIVERSITY PERFORMANCE REPORTING

Monitoring Economy and Efficiency

Recommendation

In order to assist the Ministry and governing bodies in assessing institutional performance, the Ministry should encourage universities to develop and report *measurable objectives and appropriate indicators of the economy, efficiency, and effectiveness with which they meet them.*

Current Status

The Ministry continues to require universities to publish for each of their programs: the graduation rate; graduate employment rate; and the Ontario Student Assistance Program loan default rate.

The draft framework document proposed that universities develop institution-specific indicators for ministry review and that these indicators focus on achievement of previously stated goals. Only some institutions have begun to report such information and not all of those publish it.

No additional common indicators had so far been proposed. The report of the Task Force on Investing in Students reiterated the need for "a common set of performance indicators and benchmarks of best practice to provide reliable information and a consistent set of measures on the performance of the higher education sector."

Bill 46, the Public Sector Accountability Act, would, if passed by the Legislature, require universities to publish annual reports that include a business plan for the following year and a description of the extent to which the university achieved its goals and objectives for the year, as set out in that year's business plan. The Ministry believes that such reporting would be sufficient for the Ministry to monitor and assess universities' performances.

FUNDING UNIVERSITY EDUCATION

Recommendation

In order to help ensure that the funding system meets the needs of students and the province, the Ministry should establish funding approaches that link funding to the achievement of the Ministry's postsecondary education objectives.

Current Status

The Ministry articulated two major objectives in the draft accountability framework document:

- that institutions demonstrate responsiveness to the choices made by willing and qualified students about which programs they wish to study and which institutions they want to attend; and
- that institutions demonstrably provide an excellent education experience, based on agreed-upon criteria.

Funding links to these two objectives had not been established, although limited funding linked to performance or provincial goals was introduced since our audit. For instance, in 2000, the Ministry established a performance fund of $16.5 million to be allocated to institutions based on their performance regarding three outcome indicators: their graduation rates and their graduate employment rates six months and two years after graduation. For the 2001/02 fiscal year, the fund was increased to $23.2 million and the allocation method refined to address concerns over fairness expressed by the universities. Also, special purpose funding had been introduced to assist universities to respond to the increasing demand for graduates of high-technology, nursing, medicine, and teaching programs. To increase accessibility, in 2000, the Ministry introduced funding of $16.5 million that is tied to a university's ability to attract new students. This accessibility fund was increased to $25.8 million in the 2001/02 fiscal year.

MINISTRY OF TRANSPORTATION

4.14–Provincial Highway Maintenance

(Follow-up to VFM Section 3.14, *1999 Annual Report*)

BACKGROUND

The Ministry of Transportation's goal is to foster a positive business climate supported by a safe, efficient, and accessible transportation network. The Ministry sets minimum road safety and maintenance standards, establishes and enforces user safety regulations, and sets policies for the use of the provincial highways network. The Ministry is also responsible for the maintenance and repair of provincial highways. It performs routine highway-maintenance services to protect existing roads from untimely deterioration and to ensure highways are safe and usable. These services include such activities as culvert cleaning, pothole repair, crack filling, guiderail replacement, snow plowing, and salting.

In 1999, the provincial network consisted of 2,350 bridges and the equivalent of approximately 22,500 kilometres of two-lane highways. The estimated replacement value of this network was $27 billion. In the 1998/99 fiscal year, the Ministry spent $235 million on highway maintenance, which included both payments to contractors and the cost of ministry internal operations then remaining. By March 31, 1999, approximately 30% of the provincial highways system had been outsourced. Since our 1999 audit, the Ministry has completed the outsourcing of the maintenance function for its entire highway network.

In 1999, we concluded that the Ministry did not have sufficient procedures to measure and report on program effectiveness. We found that the highway system had not improved appreciably since 1992, when we reported that a lack of timely maintenance contributed to a decline in the proportion of roads in good condition from 60% in 1979 to 40% in 1991. In 1998, only 44% of the province's highways were in good condition.

We also concluded that the Ministry had not achieved the estimated 5% savings on the outsourcing contracts we reviewed, which covered about 20% of the province's highway system. The Ministry had also engaged contractors to perform preservation management work without tender and offered these contractors surplus ministry vehicles and equipment without going through the required public auction. In addition, ministry procedures were not adequate to ensure compliance with legislation, policies, and contractual terms and conditions as maintenance co-ordinators stated that patrol areas were too large and there were insufficient staff to adequately monitor the work of contractors.

Accordingly, we made a number of recommendations to the Ministry, and the Ministry made certain commitments to take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information received from the Ministry of Transportation, some action has been taken on most of the recommendations we made in our 1999 report. The current status of each of our recommendations is outlined below.

MEASURING AND REPORTING PROGRAM EFFECTIVENESS

Effectiveness Measures

Recommendation

To ensure that the highway maintenance program is effective in meeting its stated objectives, the Ministry should:

- *implement and monitor performance measures for highway safety improvements and both winter and summer maintenance activities; and*
- *gather the necessary information to determine whether its maintenance activities are cost effective in preserving and prolonging the life of the provincial highways.*

Current Status

The Ministry informed us that it has continued to gather data and to monitor winter performance measures. The Ministry established a performance target for the 1998/99 fiscal year of 90% of all highways to achieve bare pavement after a winter storm within standard time frames for each class of highway. The Ministry indicated that it achieved a performance level of 93.6% for 1998/99 and 95.6% for 1999/2000. As of June 2001, data for the 2000/01 fiscal year was still being collected.

The Ministry still has not developed performance measures for summer maintenance activities. However, we were informed that this is being considered as part of the Ministry's new Asset Management Business Framework. One objective of the framework is to ensure that the Ministry has a systematic decision-making process for operating, maintaining, and expanding the highway network, from planning through to implementation. This framework is also expected to integrate engineering services and infrastructure management systems with economic, financial, and best business practices and then build these into the existing business cycle.

The Ministry indicated that it is working together with the Ministry of Finance on the Asset Management Business Framework, which is scheduled to be implemented in the 2002/03 fiscal year.

DUE REGARD FOR ECONOMY AND EFFICIENCY

Alternative Service-delivery Option

Recommendation

To ensure that the maximum benefits are realized from the outsourcing initiative, the Ministry should evaluate each contract to determine which outsourcing method provides the taxpayer with the greatest actual savings and revise the implementation strategy where necessary.

Current Status

The Ministry agrees that it is important to realize the maximum benefits from the outsourcing initiative and has decided to continue with the blended approach of using Area Maintenance Contracts and Managed Outsourcing. In this regard, the Ministry indicated that this approach would "provide the best opportunity to maintain competition, develop the industry and achieve savings." In addition, the Ministry intends to monitor the contracting market to determine which contract method is most cost effective as each contract is completed and subsequently retendered.

Potential Outsourcing Savings

Recommendation

To ensure that the outsourcing initiative actually results in better value for money for the taxpayer, the Ministry should:

- *reassess the estimated savings for the contracts awarded prior to renewal and modify its service delivery approach accordingly; and*
- *review its business case methodology for service delivery to ensure that outsourcing is in fact beneficial to the taxpayer.*

Current Status

In response to questions from the Standing Committee on Public Accounts (PAC) about the savings achieved from outsourcing highway maintenance, the Ministry reported to PAC in May 2001 the results of the work of consultants that the Ministry identified as an "independent auditor." Key results of the consultants' work regarding outsourcing savings that were presented to PAC included savings of 5.7%, or over $11 million. These savings were reportedly achieved in the maintenance program for the 1999/2000 fiscal year as compared to the 1998/99 fiscal year.

We reviewed the report prepared by the consultants and obtained information from the report's authors in answer to a number of questions. The consultants informed us that they had been engaged as consultants, not as an "independent auditor" and that the scope and extent of the work performed by them was determined by the terms of their consulting engagement with the Ministry. The consultants' report does not provide the necessary audit assurance to demonstrate the savings actually achieved from outsourcing because sufficient analysis was not done to verify the savings. For example, almost half of the reported $11 million in savings to the maintenance program was due to an adjustment for inflationary pressures that was uniformly applied to expenditures for the 1998/99 fiscal year without regard to which of the expenditures may have been subject to lower inflationary pressures.

We therefore concluded that the consultants' work cited by the Ministry does not sufficiently support the Ministry's claims of actual savings achieved from outsourcing. It is also unlikely that the consultants' report can be used to support the achievement of the 5% savings target set by the Management Board of Cabinet. In addition, we noted that the consultants observed that several cost estimates for the pilot contract were based on historical information that was not kept by the Ministry and could not be verified by the consultant. We were particularly concerned about the fact that all highway maintenance activity was irreversibly outsourced without first evaluating the results of outsourcing in the pilot district in order to make a business case for further outsourcing.

It would be more beneficial for the Ministry to establish and apply procedures for contract management and service quality monitoring and other necessary processes to ensure that maintenance operations are carried out cost effectively, in compliance with ministry goals and expectations, and in accordance with Management Board of Cabinet directives. The Ministry advised us that it is committed to developing and implementing these procedures and practices and that it considers the consultants' report as very useful in this regard.

Maintenance Information System

Recommendation

To ensure that the District Direct Input System provides accurate and complete information for management decision-making, the Ministry should establish procedures, such as periodic on-site verification by existing employees, to obtain the necessary assurance that information submitted by contractors is reliable.

Current Status

The Ministry informed us that it has made changes to the District Direct Input System, which is now called the Maintenance Management Information System. Maintenance co-ordinators are now required to verify the information entered into the system by the contractors by comparing it to supporting documentation and field activities prior to submitting it to the Ministry's database. Information to be verified includes the type of work, materials used, equipment deployed, and labour hours.

We were informed that in May 2001 the Ministry started implementing enhancements to the system software by including a two-level electronic data review and approval process to help ensure the validity of the information.

Highway Transfers

Recommendation

To maximize the benefits of the outsourcing initiative, the Ministry should consider not exercising the two-year option on the pilot area maintenance contract and either retender or switch to an alternative delivery method that is more cost effective.

Current Status

We noted in our 1999 Annual Report that the pilot contract included a stipulation that, if the number of kilometres of highway the contractor was to maintain decreased, the Ministry would pay the contractor only 20% of the costs associated with the maintenance of those kilometres. The number of kilometres did decrease as the Ministry transferred 425 kilometres of highway in the pilot area to local municipalities. We stated in our report that "the contractor contends that the 20% payment is insufficient and there is a risk that the Ministry may eventually have to pay more."

The transfer of highways during the original contract term resulted in a dispute between the contractor and the Ministry over contract payments. We were informed that the contractor would only accept a settlement on the condition that the contract be extended. The Ministry agreed to pay the contractor over $1 million to settle the dispute and extended the contract for two years effective April 1, 2000.

A review carried out by a consultant on the Ministry's decision to extend the contract concluded that the economic justification for continuing with the contract was difficult to assess. While determining a benchmark against which to compare the estimated costs of the extension, the consultant could not easily find documentation supporting the estimates, and the support for some cost estimates no longer exists (for example, as previously noted, several cost estimates were based on historical information that was not kept by the Ministry and could not be verified by the consultant). In those cases, the consultant reviewed research on comparable costs and verified the reasonableness of the Ministry's estimates; however, the consultant could not attest to the accuracy of those estimates.

Maintenance of a Competitive Industry

Recommendation

The Ministry should review its current tendering practices to ensure that excessive costs are not incurred in future highway maintenance. In addition, in areas where no savings would result from outsourcing, the Ministry should implement the most cost-effective method of service delivery.

Current Status

As indicated under the Alternative Service Delivery Option section above, the Ministry decided to continue with the blended approach of using area maintenance contracts and managed outsourcing. The Ministry indicated that, as of October 2000, the maintenance of all of the 22,471 kilometres of two-lane equivalent highways in the provincial network had been outsourced. Of this amount, 13,134 kilometres (58.4%) were under area maintenance contracts, and 9,337 kilometres (41.6%) were under managed-outsourcing arrangements.

The Ministry indicated that the current outsourcing arrangements are competitive, involving a large number of contractors of varying sizes that are well distributed geographically. For instance, there are nine area maintenance contractors, as well as a number of smaller contractors that the Ministry hires under its managed-outsourcing program. However, we noted that one of the nine contractors maintained 37% of the roads under area maintenance contracts, with the remaining eight contractors individually maintaining a considerably smaller percentage of the roads.

As we noted in our 1999 Annual Report, the Ministry still has not established an upper limit on the amount of work that any one contractor could obtain. Without such a policy in place, the Ministry runs the risk that, for the second round of competition, smaller companies may not be able to adequately compete. This could result in an inadequately competitive market and an escalation of costs to maintain service levels.

Preservation Management

Recommendation

To ensure that value for money is obtained, the Ministry should award preservation management contracts through a competitive acquisition process as required by Management Board of Cabinet directives.

Current Status

Subsequent to our audit, the Ministry sought advice from the Secretary of the Management Board of Cabinet regarding its process of awarding preservation management contracts. For work estimated to be less than $100,000, the Ministry's practice was to approach the contractor for a price before considering an open competitive process. This price would then be compared to ministry estimates, and if it was considered reasonable, the work would be granted to the existing contractor. The Secretary replied that "the corporate procurement directives require that supplies and services be acquired on a competitive and transparent basis. They do not preclude Ministries from using the type of process you [the Ministry] have described provided that all elements of the process are disclosed to all proponents in the initial RFP [Request for Proposal]."

As a result, the Ministry continued to follow the practice described above. However, the Ministry engaged a consultant to review a sample of preservation management contracts for documentation, consistency, and compliance with ministry standards. The consultant indicated that there were a number of areas in the process of awarding the contracts that required improvements and made recommendations to strengthen ministry procedures. We understand that the Ministry is taking action on the consultant's recommendations.

Surplus Assets

Recommendation

To ensure that the Ministry optimizes its returns on the sale of surplus assets by allowing all potential buyers an equal opportunity to purchase surplus vehicles and equipment, the Ministry should dispose of surplus assets through public auction as required by the Management Board of Cabinet directives and ministry policy.

Current Status

Subsequent to our audit, the Ministry also sought advice from the Secretary of the Management Board of Cabinet on the issue of the disposal of surplus assets. The Secretary replied that the procurement directive requires that all arrangements for the disposal of supplies or equipment by sale must be equitable to potential buyers, avoid conflicts of interest by excluding government employees as buyers, and optimize the returns to government. In this context, the disposal of surplus assets as part of a larger, transparent, and competitive tendering process is consistent with the obligations of the procurement directive. The Ministry informed us that since the completion of outsourcing, all surplus assets were being disposed of through public auction.

COMPLIANCE WITH POLICIES, PROCEDURES, AND CONTRACT TERMS

Monitoring of Maintenance Services

Recommendation

In order to fulfill its obligations under the Public Transportation and Highway Improvement Act, *the Ministry should establish procedures to ensure that:*

- *the monitoring function is effectively carried out;*
- *maintenance co-ordinators maintain sufficiently detailed records of their monitoring efforts; and*
- *penalties are assessed where warranted according to the terms of the maintenance contracts.*

Current Status

The Ministry informed us that it has developed and distributed a Monitoring Manual for Area Maintenance Contracts that contains detailed procedures with respect to communication with the contractor, documentation to be maintained by the contract administrators, reporting requirements for non-compliance of contract terms, and contract-performance reporting. In addition, to complement this manual, a Maintenance Operations Contract Administration Guideline and Protocol was developed and has been in place since 1999. The guideline and protocol detail the approach to be taken by contract administrators when contractors violate the terms of maintenance contracts.

Specific monitoring procedures initiated by the Ministry include a pilot project during the 2000/01 fiscal year using Global Positioning System technology to track the location of the contractor's snow plows and other equipment and ministry patrol trucks. In addition, the Ministry installed sensors on vehicles to track and record information such as speed, direction of the snow plow, and the rate at which salt and sand are being spread on the pavement. The Ministry intends to expand this project during the winter of 2001/02.

Contract Performance Evaluation

Recommendation

To ensure that only competent contractors are selected and that the best value for the funds expended is received, the Ministry should formally evaluate all contractors upon completion of maintenance service contracts and before awarding subsequent contracts. In addition, the Ministry should develop a system to allow regions to share information regarding a contractor's past performance.

Current Status

The Ministry informed us that it issued a policy in December 2000 that clarified and formalized the requirement to prepare an evaluation at the completion of a maintenance contract and on an annual basis for long-term contracts. This evaluation is to assess key components of the contractor's performance, from adherence to contract specifications to environmental compliance. The reports are to be used to provide a critique to the contractor and to assist the Ministry in awarding subsequent contracts.

A central registry has been developed and is administered by the Qualification Control Section of the Construction and Operations Branch. The registry gathers the performance evaluations completed for all maintenance contractors and provides information upon request to District Offices to help them make hiring decisions.

The Ministry also indicated that a more comprehensive contractor Performance Rating System is being developed that will link a contractor's performance history to its ability to secure future work with the Ministry. A working model is expected to be completed by the fall of 2001 for subsequent implementation.

CHAPTER FIVE

Public Accounts of the Province

INTRODUCTION

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The Act requires the Public Accounts to be delivered to the Lieutenant Governor in Council for presentation to the Legislative Assembly not later than the tenth day of the first session held in the following calendar year. This year, the 2000/01 *Public Accounts of Ontario* were tabled on September 24, 2001.

The financial statements of the province, which are included in the Public Accounts, are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the integrity and fairness of the information presented in the statements, including the many amounts based on estimates and judgment. The government is also responsible for ensuring that an established system of control with supporting procedures is in place to provide assurance that transactions are authorized, assets are safeguarded, and proper records are maintained.

I audit and express an opinion on the financial statements of the province. The objective of my audit is to determine, with reasonable assurance, whether the financial statements are free of material misstatement. The financial statements, along with my Auditor's Report on them, are provided in a separate volume of the Public Accounts. In addition to the financial statements, the Public Accounts include three supplementary volumes:

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. These schedules and statements reflect the financial activities of the government's ministries on a modified cash basis.
- Volume 2 contains the financial statements of significant provincial Crown corporations, boards, and commissions that are part of the government's reporting entity and other miscellaneous financial statements.
- Volume 3 contains the details of expenditure and the Ontario Public Service senior salary disclosure.

The Province of Ontario also publishes an annual report together with the Public Accounts. The annual report presents summaries and analyses of the province's financial condition and fiscal results, as well as condensed financial statements of the province. As such, the annual report enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

I review the information in the annual report and the three supplementary volumes for consistency with the information presented in the financial statements.

THE PROVINCE'S 2000/01 FINANCIAL STATEMENTS

The *Audit Act* requires that in my Annual Report I report on the results of my examination of the province's financial statements as reported in the Public Accounts. I am pleased to report that my Auditor's Report to the Legislative Assembly on the financial statements for the year ended March 31, 2001 is clear of any qualifications or reservations and reads as follows:

> To the Legislative Assembly of the Province of Ontario
>
> I have audited the statement of financial position of the Province of Ontario as at March 31, 2001 and the statements of revenue, expenditure and net debt and of cash flows for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.
>
> I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.
>
> In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants. As required by Section 12 of the *Audit Act*, I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.
>
> [signed]
>
> Toronto, Ontario
> July 31, 2001
>
> Erik Peters, FCA
> Provincial Auditor

BETTER ACCOUNTING AND ACCOUNTABILITY REQUIRED FOR MULTI-YEAR FUNDING

Accounting for Health-Care Expenditures

BACKGROUND

Health care is of prime concern to all Canadians. Given this, an essential element of government financial reporting is reliable and transparent information on the level of government health-care funding received and expended. Users of government financial statements should be able to rely on such statements to provide this information and to distinguish health-care revenues and expenditures that relate to current periods from those that relate to future periods.

Although health care in Canada is primarily a provincial responsibility, the federal government provides provinces with funding for a portion of their health-care expenditures by way of federal transfers. These transfers are recorded as provincial revenues and then, along with provincially raised funds, are expended by provincial governments on health care. Federal and provincial governments have often differed as to their respective contributions towards fulfilling this important responsibility. Debates over these differences have only increased the need for transparent and reliable financial information.

In my view, government financial reporting on its annual expenditures in the health-care sector is not as reliable and transparent as it could be. Over the last few years, the federal government has introduced a new approach to providing a significant portion of its health-care transfers to provinces. Provincial governments throughout Canada have been accounting for these transfers in significantly different ways, based on what they have agreed to do with the funds provided by the federal government, and none of these ways mirror how such transfers are accounted for by the federal government. The lack of comparability of the financial reporting by the various Canadian governments for annual health-care transfers received and expenditures can lead to public confusion in this regard. In Ontario, this situation is compounded by the fact that the approach taken to account for certain health-care funds received is quite different from that taken to account for multi-year health-care expenditures.

ONTARIO'S ACCOUNTING FOR SUPPLEMENTAL FEDERAL HEALTH-CARE TRANSFERS

The largest transfers from the federal government are the Canada Health and Social Transfer (CHST) payments. The CHST is a block fund that assists provinces in providing health-care, post-secondary education, and other social programs under the *Federal-Provincial Fiscal Arrangements Act*. On March 31, 1999, the federal government created a new Canada Health and Social Transfer (CHST) Supplement Trust For Health Care. Under the trust arrangement, the federal government irrevocably committed to, and later provided to a newly established trust, a $3.5-billion supplement to its existing CHST program. The $3.5 billion was to provide additional provincial and territorial health-care funding for a three-year period commencing in the 1999/2000 fiscal year and ending in the 2001/02 fiscal year.

Although the trust documents contained a schedule indicating amounts allocated to each province for each of these three years, under the terms of the trust provinces could, upon providing 30 days' notice, withdraw their full three-year funding at any time.

One year later, on March 31, 2000, the federal government created a second irrevocable trust, the Canada Health and Social Transfer Supplement Trust. The trust was structured in a similar manner to the first trust, except that it was intended to address post-secondary education as well as health-care needs. A total of $2.5 billion was irrevocably committed and later provided under this trust agreement, to cover a four-year period commencing in the 2000/01 fiscal year and ending in the 2003/04 fiscal year.

Both of the trusts were actually funded by the federal government subsequent to the fiscal years in which they were established. Once the trusts were funded, provinces began withdrawing their respective allocations. The federal government treated the first $3.5-billion transfer as an expenditure for its fiscal year ended March 31, 1999 and the second $2.5-billion trust as an expenditure for its fiscal year ended March 31, 2000.

Provincial jurisdictions have accounted for their allocations in a variety of ways, none of which have mirrored the federal accounting approach. Some have taken their full allocation for all the years into income as soon as the funds were available to them for withdrawal. Others, like Ontario, have taken the funds into income in a manner consistent with the periods set out in the federal schedules. Yet others have adopted different approaches to recognizing the income from these funds. This diversity of accounting treatment impairs the comparability of publicly provided financial information across Canada.

Although, as indicated above, the Ontario government is recognizing its CHST supplements as income over the suggested federal periods, it has, for cash management purposes, withdrawn all of its allocated funds from the two trust accounts. The currently unrecognized balances of the withdrawn funds are being accounted for as deferred revenues; that is, they have been set up on the province's statement of financial position, to be recognized as revenue in the future years to which they relate.

I support the province's approach to accounting for this CHST funding received. However, given the significance of the amounts involved and the diversity of accounting practices across jurisdictions, I asked the government to provide greater transparency by disclosing the details of this accounting in its notes to this year's financial statements. The government did so this year in Note 7.

NEED FOR GREATER CONSISTENCY AND TRANSPARENCY IN ONTARIO'S ACCOUNTING

While federal CHST multi-year transfers are recognized as health-care revenues across multiple years, I am concerned that the government does not use the same approach to account for provincial health-care expenditures that impact on more than one year. I have two specific concerns:

- As I commented on last year, $1 billion in grant funding was provided in May 2000 to Ontario hospitals to help finance proposed capital construction projects over the subsequent four years. The entire $1 billion was charged to expenditure for the fiscal year ending March 31, 2000.

- This year, an additional $140 million was provided to seven of the hospitals based on revisions to the originally submitted future plans. Again, the entire $140 million was provided subsequent to March 31, 2001 but charged to expenditure for the fiscal year ending March 31, 2001.

Therefore, these grants have not been accounted for in the same manner as the CHST revenues—that is, allocated to each of the accounting periods that the grants are meant to apply to.

As indicated in last year's Annual Report, I believe it is essential for the annual operating statements of governments to properly reflect revenues and expenditures in relation to the fiscal period being measured. When distortions are significant, users of financial statements cannot evaluate a government's fiscal performance for the year vis-à-vis its budget, assess its revenues earned vis-à-vis its expenditures on government programs, or make useful comparisons of such information between past and future periods or between different jurisdictions.

Currently, accounting standards for government financial reporting do not address multi-year funding issues of this nature in an unequivocal manner and allow some latitude. In addition, multi-year expenditures were not significant enough to affect the overall fair presentation of the province's financial statement for the 2000/01 fiscal year. Due to these facts, I have to date not included a reservation in my opinion on the province's financial statements. I am encouraged, as discussed further in the "New PSAB Initiatives" section of this chapter, by the Public Sector Accounting Board (PSAB)'s new project to review the current accounting standards relating to government transfers. As I indicated last year, I firmly believe that the practice of charging multi-year funding to the current year's operations must cease. At year-end, funding that relates to future years should be treated as advances, included on the government's statement of financial position as assets, and drawn down and charged as expenditures in the years in which the activities funded actually occur.

Contributing to the inconsistency and lack of transparency in Ontario's health-care accounting is the fact that the province's accounting records for all government expenditures continue to be maintained and publicly disclosed on two separate bases: the modified cash basis for legislative appropriation control and the modified accrual basis as prescribed by PSAB standards. As a prime example of the effect this has on Ontario's public financial records, the $1 billion in capital funding referred to above was treated differently in the province's financial statements than it was in the Expenditure Estimates and in Volume 1 of the Public Accounts, even though the financial statements and Volume 1 of the Public Accounts are tabled in the Legislature at the same time. In the financial statements, which are prepared on the modified accrual basis, the funding was treated as an expenditure for the 1999/2000 fiscal year. In the Expenditure Estimates and in Volume 1 of the Public Accounts, which are prepared on the modified cash basis, the funding was treated as an expenditure for the 2000/01 fiscal year.

Given what is occurring, as illustrated above, I am also concerned that public reporting on two different bases can only contribute to public confusion with respect to annual expenditures and financial results. I urge the adoption of the accrual accounting approach for all public financial reports of the government. This reporting should be in accordance with PSAB accounting standards.

ACCOUNTING FOR TANGIBLE CAPITAL ASSETS

Currently, Ontario ministries and government service organizations charge the full cost of capital assets to expenditure in the year of acquisition or construction. This differs from the practice followed in the private sector, where capital assets acquired or constructed are initially recorded on the statement of financial position as assets and amortized and expensed to operations over their estimated useful lives. In June 1997, PSAB approved a new set of recommendations setting out rules for the recognition, measurement, amortization, and presentation of government capital assets. Among other things, the standard requires that a new statement of tangible capital assets be included as part of a government's summary financial statements.

The Ministry of Finance has not as yet adopted the recommendations contained in this standard. It is actively considering the future implementation of these recommendations once the new government-wide Integrated Financial Information System (IFIS) is fully implemented. IFIS is a major information-technology project presently under development to replace the government's current accounting system. The new system is expected to be implemented over the next several years.

In December 1999, the government re-established the Ontario Financial Review Commission (Commission) to review the financial management practices of the government and its major transfer partners. Among the items the Commission examined were capital funding, capital financing, and options for reporting the government's investment in tangible capital assets. At the request of the Minister of Finance, under section 17 of the Audit Act, I served as special advisor to the Commission.

The Commission issued its report this year. With respect to tangible capital assets, the Commission concluded that providing more information about the government's inventory of assets owned, the condition of those assets, and its plans for capital renewal, replacement, and disposal is essential. It noted that better reporting would give the public and government a better picture of the resources used to provide public services and should help managers within government make better decisions about how to invest in and maintain tangible capital assets. Its recommendations included the development of the information needed to show the cost and depreciation of existing tangible capital assets and the adoption of the existing PSAB standards for reporting tangible capital assets as soon as possible.

There is little doubt that instituting a system to properly account for Ontario's significant capital investments represents a challenge. However, I support both PSAB's recommendations and those of the Commission, as I believe that summary financial statements reflecting the recommended enhanced financial information would be valuable for both government decision-makers and stakeholders. My Office continues to look forward to consultation on this matter, to the extent possible while safeguarding our independence, in order that we may help ensure that existence, ownership, auditability, and valuation issues regarding capital assets are resolved.

OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the province's financial statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, we noted a number of areas during the audit where we believed improvements could be made. While none of these matters affects the fairness of the financial statements of the province, they will be covered, along with accompanying recommendations for improvement, in a management letter to the Ministry of Finance.

NEW PSAB INITIATIVES

The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants attempts to foster improved government financial and performance information by continuously improving its existing recommendations and by developing new recommendations to deal with emerging accounting and auditing issues. Some of the most significant issues PSAB is dealing with at the present time are the following:

- Currently, a PSAB project on accounting for employee future benefits is nearing completion. A revised PSA Handbook standard on retirement benefits has been issued that extends the standards on pensions to include post-employment health, dental, and life insurance benefits. The project also addresses issues related to past-service pension costs and joint defined benefit plans. The Board also approved a public Exposure Draft on the remaining employee future benefits: other post-employment benefits, compensated absences, and termination benefits. The province has adopted these recommendations in the preparation of the *Ontario Budget 2001* and plans to prepare the 2001/02 financial statements on the same basis.
- PSAB recently approved a Statement of Principles for Foreign Currency Translation. This statement proposes that the current practice of deferral and amortization of exchange gains and losses relating to foreign-currency denominated monetary items be retained to recognize and measure the effects of foreign-exchange rate changes. This practice is currently already followed by the province.
- PSAB recently approved a new project to develop amendments to its standards on government transfers to address application and interpretation issues raised by the government community. Issues related to multi-year funding arrangements, eligibility criteria, transaction authorization, and grants versus loans, as well as the distinction between commitments and obligations, will be examined.

OTHER MATTERS

The Provincial Auditor is required under section 12 of the *Audit Act* to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, under section 91 of the *Legislative Assembly Act*, the Provincial Auditor is required to report on any transfers of money between Items within the same Vote in the Estimates of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government tables detailed Expenditure Estimates, outlining each ministry's spending proposals on a program-by-program basis, shortly after presenting its Budget. The Standing Committee on Estimates reviews selected ministry Estimates and presents a report to the

Legislature with respect to those ministry Estimates that were reviewed. The Estimates of those ministries that are not selected for review are deemed to be passed by the Committee and reported as such to the Legislature. Orders for Concurrence for each of the Estimates reported on by the Committee are debated in the Legislature for a maximum of six hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving the *Supply Act*, which stipulates the amounts that can be spent according to the ministry programs as set out in the Estimates. Once the *Supply Act* is approved, the individual program expenditures are considered Voted Appropriations. The *Supply Act, 2000* pertaining to the fiscal year ended March 31, 2001, received Royal Assent on December 21, 2000.

Typically, prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions for interim supply. For the 2000/01 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- November 1, 1999 to April 30, 2000—passed October 25, 1999.
- May 1, 2000 to October 31, 2000—passed April 5, 2000.
- November 1, 2000 to April 30, 2001—passed September 27, 2000.

SPECIAL WARRANTS

If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of Special Warrants authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by Orders in Council approved by the Lieutenant Governor on the recommendation of the government.

As the three motions of interim supply covered the period from April 1, 2000 to March 31, 2001, no Special Warrants were required during the 2000/01 fiscal year.

TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation that is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations not fully spent in the fiscal year. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of the total value of Treasury Board Orders issued for the past five fiscal years:

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

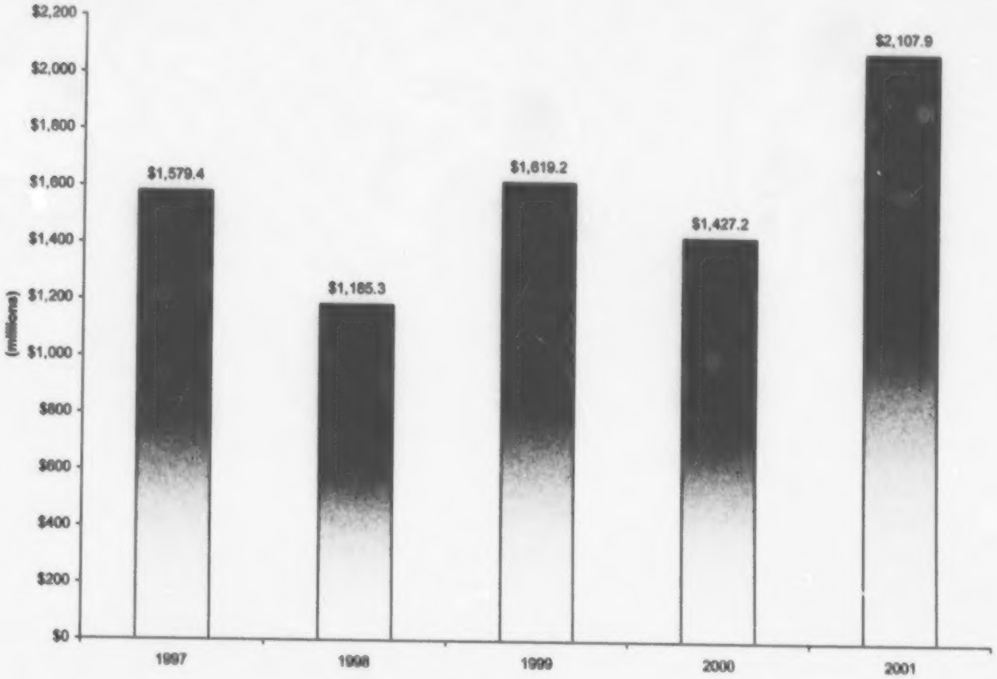
REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca



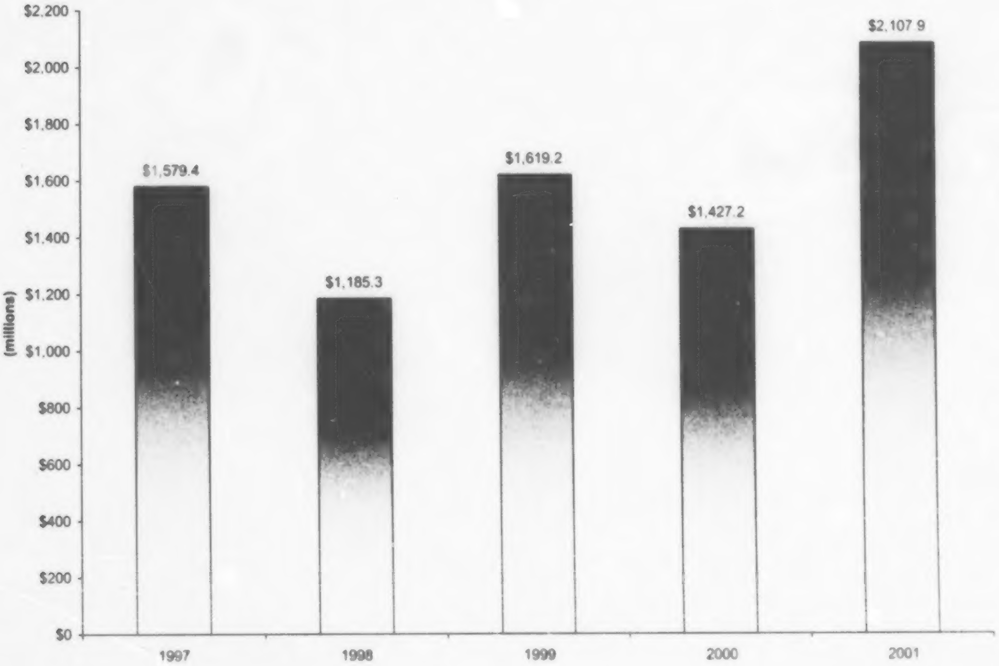
Treasury Board Orders for the 2000/01 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
May 2000–February 2001	15	377,256,600
March 2001	12	784,267,900
April 2001	26	946,389,100

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders are to be printed in *The Ontario Gazette* in the fall of 2001, together with explanatory information. A detailed listing of 2000/01 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Three of this report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one Item of the Estimates of the Office of the Assembly to another Item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the Annual Report.



Treasury Board Orders for the 2000/01 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
May 2000–February 2001	15	377,256,600
March 2001	12	784,267,900
April 2001	26	946,389,100
Total	**53**	**2,107,913,600**

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders are to be printed in *The Ontario Gazette* in the fall of 2001, together with explanatory information. A detailed listing of 2000/01 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Three of this report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one Item of the Estimates of the Office of the Assembly to another Item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the Annual Report.

In respect of the 2000/01 Estimates, the following transfers were made within Vote 201:

From:	Item 3	Legislative Services	$ 556,100
	Item 6	Sergeant at Arms and Building Management	694,100
	Item 9	Members' Office Support Services	138,900
To:	Item 2	Office of the Clerk	95,000
	Item 5	Administrative Services	1,144,100
	Item 11	Restructuring Costs	150,000

UNCOLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act,* the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order in Council to delete from the accounts any amount due to the Crown which is deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2000/01 fiscal year, receivables of $152.9 million due to the Crown from individuals and non-government organizations were written off (in 1999/2000 the comparable amount was $173.9 million). Volume 2 of the *2000/01 Public Accounts of Ontario* provides a listing of these write-offs in total by ministry or Crown agency.

Under the accounting policies followed in the audited financial statements of the province, a provision for doubtful accounts is recorded against the accounts-receivable balances. Accordingly, most of the $152.9 million in write-offs had already been provided for in the audited financial statements. However, the actual deletion from the accounts required Order in Council approval.

The major portion of the write-offs related to the following:

- $40.4 million for uncollectable taxes relating to corporation tax receivables;
- $25.3 million for uncollectable taxes relating to retail sales tax receivables;
- $22.5 million for uncollectable assessments under the Family Benefits/Ontario Disability Support Program;
- $11.9 million for an uncollectable mortgage related to the sale of a property; and
- $11.8 million for uncollectable accounts receivable relating to billings charged to individuals who resided in community and social services facilities.

CHAPTER SIX

The Office of the Provincial Auditor

MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs and its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts. The Provincial Auditor and staff of the Office are independent of the government and its administration. Our independence is a safeguard that enables the Office to fulfill its auditing and reporting responsibilities objectively and fairly. We are entitled to have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, reviews and approves our budget, which is subsequently laid before the Legislative Assembly. As required by the *Audit Act*, the Office's expenditures relating to the 2000/01 fiscal year have been audited by a firm of chartered accountants appointed by the Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board and subsequently tabled in the Assembly.

AUDIT RESPONSIBILITIES

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the province, and the accounts of many agencies of the Crown, and we audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies and legislation. Our responsibilities are set out in the *Audit Act* (Exhibit Four in this Report).

CHAPTER SIX

The Office of the Provincial Auditor

MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs and its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts. The Provincial Auditor and staff of the Office are independent of the government and its administration. Our independence is a safeguard that enables the Office to fulfill its auditing and reporting responsibilities objectively and fairly. We are entitled to have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, reviews and approves our budget, which is subsequently laid before the Legislative Assembly. As required by the *Audit Act*, the Office's expenditures relating to the 2000/01 fiscal year have been audited by a firm of chartered accountants appointed by the Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board and subsequently tabled in the Assembly.

AUDIT RESPONSIBILITIES

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the province, and the accounts of many agencies of the Crown, and we audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies and legislation. Our responsibilities are set out in the *Audit Act* (Exhibit Four in this Report).

The Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, the Office may make a special report to the Assembly at any time on any matter that in the opinion of the Provincial Auditor should not be deferred until the Annual Report. We also assist and advise the Standing Committee on Public Accounts in its review of the Annual Report of the Provincial Auditor and of the Public Accounts of the province.

Our audit responsibilities do not extend to government policy matters. Out of respect for the principle of Cabinet privilege, the Office does not seek access to recommendations to Cabinet or to the deliberations of Cabinet. However, to fulfill our reporting and auditing responsibilities under the *Audit Act*, the Office can access all other information contained in Cabinet submissions.

The government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies and programs through questions during legislative sessions and through reviews of legislation and expenditure estimates.

ACCOUNTS OF THE PROVINCE AND MINISTRIES

The Provincial Auditor, under subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the province's financial statements and carries out cyclical value-for-money audits in accordance with subsection 12(2) of the *Audit Act*.

AGENCIES OF THE CROWN AND CROWN-CONTROLLED CORPORATIONS

The Provincial Auditor, under subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit One, part (i), lists the agencies audited during the 2000/01 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of several of these agencies on its behalf.

Exhibit One, part (ii) and Exhibit Two list the agencies of the Crown and Crown-controlled corporations audited by public accounting firms during the 2000/01 audit year. Subsection 9(2) of the *Audit Act* requires public accounting firms that are appointed auditors of certain agencies of the Crown to perform their audits under the direction of, and to report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown-controlled corporations are required to deliver to the Provincial Auditor a copy of the audited financial statements of the corporation and a copy of their report of their findings and recommendations to management (management letter).

ADDITIONAL RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Provincial Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Provincial Auditor, it conflicts with other duties.

During the period of audit activity covered by this report (October 2000 to September 2001), the Provincial Auditor was involved in the following special assignments:

- On October 12, 2000, the Standing Committee on Public Accounts passed the following motion:

  > The Public Accounts Committee directs that at such time as the OEB [Ontario Energy Board] and the Canadian Nuclear Safety Commission have completed their review of the leasing deal of Bruce Nuclear A and B and the agreement is completed, the Provincial Auditor examine all details of the leasing agreement between Ontario Power Generation (OPG) and Bruce Partnership for the Bruce A and B nuclear facilities, to determine if the deal offers value for money for Ontario taxpayers, and to report back to the Public Accounts Committee with his findings and recommendations as soon as possible.

- On February 28, 2001, the Standing Committee on Public Accounts passed the following motion:

  > That the Provincial Auditor, under section 17 of the *Audit Act*, be asked to conduct a value-for-money audit of the policy decision by Cancer Care Ontario to provide after-hours radiation therapy through a private clinic rather than in-house and report back to the Public Accounts Committee as soon as possible.

AUDIT ACTIVITIES

TYPES OF AUDITS

Value-for-money, attest, and compliance audits are the three main types of audits carried out by the Office. The Office generally conducts compliance audit work as a component of its value-for-money and attest audits. In addition, inspection audits of selected grant-recipient organizations may be conducted under section 13 of the *Audit Act*. The following are brief descriptions of each of these audit types.

Value for Money

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard for economy and efficiency, or where appropriate procedures were not in place to measure and report on the effectiveness of programs. This value-for-money mandate is exercised with respect to various ministry and Crown-agency programs and activities each year. We have summarized in Chapter Three the conclusions, observations, and recommendations arising from the value-for-money work we performed between October 2000 and September 2001.

It is not part of the Office's mandate to measure, evaluate, or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of the ministry or agency management. The Office is responsible for reporting on whether or not ministry or agency management has carried out these functions satisfactorily. Our value-for-money work deals with the administration of programs by management, including major information systems.

We plan, perform, and report our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ rigorous processes to maintain the quality, integrity, and value of our work for our client, the Legislative Assembly. They also require that we clearly explain the nature and extent of the assurance provided as a result of our work. Some of these processes and the degree of assurance they enable us to provide are described below.

SELECTION OF PROGRAMS AND ACTIVITIES FOR AUDIT

Major ministry and agency programs and activities are audited at approximately five-year intervals. Various factors are considered in selecting programs and activities for audit each year. These factors include: the results of previous audits; the total revenues or expenditures at risk; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; the significance of possible issues that may be identified by an audit; and the costs of performing the audit in relation to the perceived benefits. Possible issues are identified primarily through a preliminary survey of the program or agency.

We also consider the work completed or planned by ministry and agency internal auditors. The relevance, timeliness, and breadth of scope of the work done by internal auditors can have a major impact on the timing, frequency, and extent of our audits. By having access to internal audit work plans, working papers, and reports and by relying, to the extent possible, on internal audit activities, the Office is able to avoid duplication of effort.

OBJECTIVES AND ASSURANCE LEVELS

The objective of our value-for-money work is to meet the requirements of subsection 12(2) of the *Audit Act*, which is to identify and report significant value-for-money issues. We also include in our Annual Report recommendations for improving controls, obtaining better value for money, and achieving legislated objectives. Management responses to each of these recommendations are reproduced in the Annual Report.

The specific objective(s) for the work are clearly stated in the Objective(s) and Scope section of each report. Our work is designed to allow us to conclude on our stated objective(s).

In almost all cases, our work is planned and performed to provide an audit level of assurance. An audit level of assurance is obtained by: interviewing management and analyzing the information they provide; examining and testing systems, procedures, and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

An audit level of assurance refers to the highest reasonable level of assurance the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including: the use of testing; the inherent limitations of control; the fact that much of the evidence available is persuasive rather than conclusive in nature; and the need to exercise professional judgment.

Infrequently, for reasons such as the nature of the program or activity, limitations in the *Audit Act*, or the prohibitive cost of providing a high level of assurance, the Office will perform a review rather than an audit. A review provides a moderate level of assurance because it consists primarily of inquiries and discussions with management; analyses of information they provide;

F7

and only limited examination and testing of systems, procedures, and transactions. For example, our work reported in Chapter Four of this report—Follow-up of Recommendations in the *1999 Annual Report*—falls into this review category.

CRITERIA

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A conclusion is reached and observations and recommendations made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our audit or review by performing extensive research of sources, such as: recognized bodies of experts; applicable laws, regulations, and other authorities; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; and applicable criteria successfully applied in other audits or reviews.

To further ensure their suitability, the criteria being applied are fully discussed with and agreed to by senior management responsible for the program or activity at the planning stage of the audit or review.

COMMUNICATION WITH SENIOR MINISTRY OR AGENCY MANAGEMENT

To help ensure the factual accuracy of our observations and conclusions, staff from our Office maintain ongoing communication with senior management throughout the audit or review. Before beginning the work, our staff meet with them to discuss the objectives and criteria and the focus of our work in general terms. During the audit or review, our staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with them. Management provides written responses to our recommendations and these are discussed and incorporated into the final draft report. The Provincial Auditor discusses and finalizes the draft report, on which the Annual Report will be based, with the deputy minister or agency head well in advance of the publication of the Annual Report.

Attest

Attest (financial) audits are designed to permit the expression of the auditor's opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the financial statements of the province and of numerous Crown agencies on an annual basis.

Compliance with Legislation and Related Authorities

Subsection 12(2) of the *Audit Act* also requires the Office to report observed instances where:

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment,

collection, and proper allocation of revenue or to ensure that expenditures were made only as authorized; or

- money was expended other than for the purposes for which it was appropriated.

Accordingly, as part of our value-for-money work, we:

- identify provisions in legislation and authorities that govern the programs or agencies being examined or that the management of those programs or agencies is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable assurance that management has complied with legislation and authorities in all significant respects.

Inspection Audits of Grant-Recipient Organizations

Although grants to organizations such as hospitals, universities, community colleges, school boards, and thousands of smaller organizations amount to approximately 50% of total government expenditures, they are subject to only limited-scope inspection audits. Inspection audits are defined in the *Audit Act* as an examination of accounting records. Although value-for-money observations may arise as a by-product of such audits, the audits are not value-for-money oriented because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. In the past, the Office has carried out inspection audits of major recipients of grants, specifically community colleges, universities, hospitals, and school boards. However, in recent years, the Office has deferred major inspection-audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full-scope audits, including value for money, of grant recipients.

On April 19, 2001, the government announced in the Speech from the Throne, under the heading of "Holding the Broad Public Sector Accountable to Taxpayers," that it would be introducing sweeping reforms to ensure that all public-sector institutions are accountable to the citizens of Ontario. Included in the planned reforms announced in the Throne Speech was a commitment to make amendments to the *Audit Act* that would permit the Provincial Auditor to assess the extent to which institutions funded by Ontario taxpayers use that money prudently, effectively, and as intended. The government's intention in this regard was also referred to in Budget Paper F of the *2001 Ontario Budget*. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Two, in the section entitled "Legislative Proposals to Improve Public-Sector Accountability."

Payments are also made to individuals under a variety of programs, such as the Ontario Health Insurance Plan or the Ontario Disability Support program. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor. For these kinds of programs, our audits focus on the ministries' procedures to ensure that only eligible recipients are being paid the correct amount.

REPORTING ACTIVITIES

VALUE-FOR-MONEY AUDITS

Our draft reports and management letters are considered to be an integral part of our audit working papers and, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

As each audit or review is completed, the Office prepares a preliminary draft report for discussion and factual clearance. The preliminary draft report is discussed with senior ministry or agency officials and revised, as necessary, to reflect the results of the discussion. The Provincial Auditor discusses and finalizes the draft report with the deputy minister or agency head (chair) well in advance of the publication of the Annual Report. Following clearance of the preliminary draft report and the ministry or agency response, a final draft report is prepared and issued to the deputy minister or agency head and, where deemed necessary, to the minister. These final-draft audit reports form the basis of our Annual Report to the Legislative Assembly.

AGENCY ATTEST AUDITS

With respect to attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister(s) responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Management Board of Cabinet.

In instances where matters that require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared, discussed with senior management, and revised as necessary to reflect the results of the discussion. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head. Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet. Matters of significance contained in the management letter may also be included in the Provincial Auditor's Annual Report to the Legislative Assembly.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts, or a minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

ANNUAL REPORT

The reporting requirements for the Annual Report, as specified in subsection 12(2) of the *Audit Act*, are organized in our Annual Report in the following way:

Chapter One of the Annual Report provides an overview of the Provincial Auditor's findings for this year's value-for-money audit activities as well as summaries of the value-for-money audits and reviews that were conducted.

Chapter Two contains observations on the subject of improving public-sector accountability.

Chapter Three contains the reports resulting from our value-for-money audits of ministries and agencies conducted during the year.

Chapter Four is aimed at ensuring that our recommendations receive timely attention. We follow up on the progress of action taken by the ministry or agency to address our audit observations and recommendations and report on their status two years after they were reported. A detailed account of the current status of recommendations made in the *1999 Annual Report* is provided in this chapter.

Chapter Five is devoted to the Provincial Auditor's comments on the audit of the Public Accounts of the province. The reporting requirements under subsections 12(2)(d) and (e) of the *Audit Act* are also met in this chapter.

In Chapter Six, we report on the activities of the Office of the Provincial Auditor and reproduce the Office's externally audited financial statement for the year ended March 31, 2001.

Chapter Seven provides information on the composition and activities of the Standing Committee on Public Accounts.

OFFICE ORGANIZATION AND PERSONNEL

The Office organization consists of management teams, each of which is headed by a director responsible for the audits of a sizeable portfolio. Audit managers are also assigned to portfolios. The composition of the portfolios attempts to align somewhat related audit entities and to foster expertise in the various areas of audit activity. The Provincial Auditor, the Assistant Provincial Auditor, and the portfolio directors make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 2001 consisted of:

Erik Peters, FCA - Provincial Auditor
Jim McCarter, CA - Assistant Provincial Auditor
Paul Amodeo, CA - Director, Public Accounts, Finance, Information Technology, and Accounting Research Portfolio
Walter Bordne, CA - Director, Community and Social Services and Revenue Portfolio
Andrew Cheung, CA - Director, Justice and Regulatory Portfolio
Gerard Fitzmaurice, CA - Director, Economic Development and Transportation Portfolio
John McDowell, CA - Director, Crown Agencies, Corporations, Boards, and Commissions Portfolio
Nick Mishchenko, CMA - Director, Health and Long-Term Care, Management Board Secretariat, and Municipal Affairs and Housing Portfolio

Gary Peall, CA	- Director, Education, Training, Colleges and Universities, and Professional Practices Portfolio

Annemarie Wiebe, CHRP, the Manager of Human Resources, regularly attends meetings of the ESC to provide advice on matters related to human resources.

The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee. All audit staff below the level of audit manager are assigned to audits from an audit staff pool.

CODE OF PROFESSIONAL CONDUCT

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles, and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence, and integrity in their work. The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public, and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations.

CANADIAN COUNCIL OF LEGISLATIVE AUDITORS

The 29th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) was held in Regina, Saskatchewan from October 21 to 23, 2001. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

The Provincial Auditor and the Assistant Provincial Auditor attended this year's meeting, which covered such topics as:

- Accountabilities of Legislative Auditors
- Performance Reporting
- Performance Indicators for Health Care

ACKNOWLEDGEMENT

AUDITEES AND STAFF

With the exception of one instance, the Provincial Auditor expresses sincere appreciation to the officials of ministries, agencies, and other entities for their co-operation in providing his staff with all the information and explanations required during the performance of the Office's audit work. The exception is reported on in Chapter Three, Section 3.11.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

The Provincial Auditor extends a special appreciation to the staff of the Office for their dedication, competence, and the professional manner in which they have carried out their duties.

OFFICE EXPENDITURE

The following is the 2001 audited Statement of Expenditure for the Office.

Office of the Provincial Auditor
Statement of Expenditure
For the Year Ended March 31, 2001

	2001		2000	
	Actual ($000s)	Estimates ($000s)	Actual ($000s)	Estimates ($000s)
salaries and wages	4,559	5,259	4,364	4,983
employee benefits (note 2)	876	1,098	880	976
transportation and communication	187	174	183	168
services	1,641	1,522	1,503	1,476
supplies and equipment	197	110	222	80
transfer payment:				
CCAF–FCVI Inc.	50	50	50	50
	7,510	8,213	7,202	7,733
the *Audit Act* (statutory) (note 5)	276	155	155	155
	7,786	8,368	7,357	7,888

Notes to Financial Statement:

1. **Accounting policy**
   The statement of expenditure has been prepared using a modified cash basis of accounting, which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.
2. **Pension plan**
   The Office provides pension benefits for its employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario. The Office's contribution related to the PSPF for the year was $259,891 (2000 - $353,862).
3. **Public Sector Salary Disclosure Act, 1996**
   Section 3(5) of this Act requires disclosure of Ontario public-sector employees paid an annual salary in excess of $100,000 in calendar year 2000. For the Office, this disclosure is as follows:

The Provincial Auditor extends a special appreciation to the staff of the Office for their dedication, competence, and the professional manner in which they have carried out their duties.

OFFICE EXPENDITURE

The following is the 2001 audited Statement of Expenditure for the Office.

Office of the Provincial Auditor
Statement of Expenditure
For the Year Ended March 31, 2001

	2001		2000	
salaries and wages	4,559	5,259	4,364	4,983
employee benefits (note 2)	876	1,098	880	976
transportation and communication	187	174	183	168
services	1,641	1,522	1,503	1,476
supplies and equipment	197	110	222	80
transfer payment:				
CCAF–FCVI Inc.	50	50	50	50
the *Audit Act* (statutory) (note 5)	276	155	155	155
	7.786	8.368	7.357	7,888

Notes to Financial Statement:

1. **Accounting policy**
   The statement of expenditure has been prepared using a modified cash basis of accounting, which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.
2. **Pension plan**
   The Office provides pension benefits for its employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario. The Office's contribution related to the PSPF for the year was $259,891 (2000 - $353,862).
3. **Public Sector Salary Disclosure Act, 1996**
   Section 3(5) of this Act requires disclosure of Ontario public-sector employees paid an annual salary in excess of $100,000 in calendar year 2000. For the Office, this disclosure is as follows:

		Salary Paid $	Taxable Benefits $
Peters, Erik	Provincial Auditor (note 5)	267,686	6,032
Leishman, Kenneth	Assistant Provincial Auditor	128,068*	176
McCarter, James	Assistant Provincial Auditor	128,248	350
Bordne, Walter	Director	104,200	286
Cheung, Andrew	Director	104,200	286
Fitzmaurice, Gerard	Director	104,200	286
McDowell, John	Director	104,200	286
Mishchenko, Nicholas	Director	104,200	286
Peall, Gary	Director	101,715	286

* The Office has only one Assistant Provincial Auditor. Mr. Leishman retired effective March 31, 2000 and this amount represents payment of banked vacation time and other retirement entitlements.

4. Estimates
The "Estimates" shown on the statement of expenditure have been taken from the approved Expenditure Estimates for the respective years.

5. Retroactive payments
The actual 2001 expenditure for the *Audit Act* (statutory) includes approximately $88,000 for retroactive payments for the years from 1996 to March 31, 2000 as approved by the Board of Internal Economy in accordance with Section 5 of the *Audit Act*.

AUDITORS' REPORT TO THE BOARD OF INTERNAL ECONOMY OF THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 2001. This statement is the responsibility of the management of the Office of the Provincial Auditor. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 2001 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Canada	ALLEN & MILES LLP
July 10, 2001	CHARTERED ACCOUNTANTS

CHAPTER SEVEN

The Standing Committee on Public Accounts

APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislature provide for the appointment of an all-party Standing Committee on Public Accounts. The Committee is appointed for the duration of the Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on November 1, 1999, soon after the commencement of the First Session of the Thirty-seventh Parliament. The membership of the Committee at September 30, 2001 was as follows:

John Gerretsen, Chair, Liberal
Bruce Crozier, Vice-chair, Liberal
Raminder Gill, Progressive Conservative
John Hastings, Progressive Conservative
Shelley Martel, New Democrat
Bart Maves, Progressive Conservative
Julia Munro, Progressive Conservative
Richard Patten, Liberal

ROLE OF THE COMMITTEE

The Committee examines, assesses, and reports to the Legislature on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures, and the assessment and collection of revenues; and the reliability and appropriateness of information in the Public Accounts.

In fulfilling this role, the Committee reviews and reports to the Legislature its observations, opinions, and recommendations on selected matters in the reports of the Provincial Auditor and the Public Accounts. These documents are deemed to have been permanently referred to the Committee as they become available.

PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of government programs and financial activities.

In addition, the Provincial Auditor and senior staff attend committee meetings during the Committee's review of the reports of the Provincial Auditor and the Public Accounts and assist the Committee in planning its agenda.

COMMITTEE PROCEDURES AND OPERATIONS

GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. At times, the Committee also meets during the summer and winter when the Legislature is not sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports.

At meetings dealing with ministry operations, the deputy minister, usually accompanied by senior ministry officials, answers questions raised by committee members. Since the Committee is concerned with administrative rather than policy matters, ministers rarely attend. When the Committee is reviewing Crown agencies, the chief executive officer, usually accompanied by senior agency staff and, at times, the chair of the agency's board of directors, attend the meetings.

MEETINGS HELD

From October 2000 to September 2001, the Committee met regularly on its designated meeting day when the Legislature was sitting and also met during the winter and summer adjournments to consider the reports of the Provincial Auditor. The Committee's work during this period included:

- reviewing the following items from the Provincial Auditor's *2000 Special Report*:
  - Ministry of Agriculture, Food and Rural Affairs—AgriCorp;
  - Ministry of Consumer and Commercial Relations (now the Ministry of Consumer and Business Services)—Project to Automate the Land Registration System (POLARIS);
  - Ministry of Correctional Services—Institutional Services and Young Offender Operations;
  - Ministry of the Environment—Operations Division;
  - Ministry of Health and Long-Term Care—Emergency Health Services;
  - Ministry of Natural Resources—Forest Management Program; and
  - the following follow-ups of recommendations contained in the *1998 Annual Report:*

  - Ministry of Finance—Land Transfer Tax Program;
  - Ministry of Natural Resources—Science and Information Resources Division; and
  - Ministry of the Solicitor General and Correctional Services (now Ministry of the Solicitor General)—Ontario Provincial Police;
- discussing the Office's proposed amendments to the *Audit Act* and the Office's 2001/02 Estimates submission to the Board of Internal Economy; and
- finalizing reports to the Legislature covering its 2000/01 activities.

REQUESTS FOR SPECIAL AUDITS

The Standing Committee on Public Accounts passed the following motions on October 12, 2000 and February 28, 2001, respectively:

> The Public Accounts Committee directs that at such time as the OEB [Ontario Energy Board] and the Canadian Nuclear Safety Commission have completed their review of the leasing deal of Bruce Nuclear A and B and the agreement is completed, the Provincial Auditor examine all details of the leasing agreement between Ontario Power Generation (OPG) and Bruce Partnership for the Bruce A and B nuclear facilities, to determine if the deal offers value for money for Ontario taxpayers, and to report back to the Public Accounts Committee with his findings and recommendations as soon as possible.
>
> That the Provincial Auditor, under section 17 of the *Audit Act*, be asked to conduct a value-for-money audit of the policy decision by Cancer Care Ontario to provide after-hours radiation therapy through a private clinic rather than in-house and report back to the Public Accounts Committee as soon as possible.

COMMITTEE PROCEDURES

The Committee conducts hearings and then reports its comments and recommendations to the Legislature. Committee procedures include the following:

- in-depth briefings and preparation;
- when practical, the inclusion of ministry responses in committee reports; and
- follow-up of committee recommendations.

The Committee also follows up in writing with those ministries and Crown agencies not selected for detailed review by the Committee regarding their plans and timetables for addressing the concerns raised in the Provincial Auditor's reports. This process enables each auditee to update the Committee on activities since the completion of the audit, such as any initiatives taken to address the Provincial Auditor's recommendations.

REPORTS OF THE COMMITTEE

GENERAL

The Committee issues its reports to the Legislature. These reports contain a précis of the information reviewed by the Committee during its meetings, together with comments and recommendations.

All committee reports are available through the Clerk of the Committee, thus affording public access to full details of committee deliberations.

After the Committee tables its report in the Legislative Assembly, it requests that ministries or agencies respond within 120 days or within time frames stipulated by the Committee in its individual recommendations.

FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up on the actions taken by ministries or agencies on the Committee's recommendations. The Office of the Provincial Auditor confers with the Clerk to ascertain the status of the recommendations and, if considered necessary, brings any significant matters to the attention of the Legislature through the Provincial Auditor's Annual Report.

Detailed information on the Committee's recommendation respecting amendments to the *Audit Act* and other related matters is contained in Chapter Two of this report.

Exhibits

EXHIBIT ONE

Agencies of the Crown

(I) Agencies whose accounts are audited by the Provincial Auditor
AgriCorp
Algonquin Forestry Authority
Cancer Care Ontario
Centennial Centre of Science and Technology
Chief Election Officer
Election Fees and Expenses, *Election Act*
Financial Services Commission of Ontario
Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans and Canola
Investor Education Fund
Legal Aid Ontario
Liquor Control Board of Ontario
Livestock Financial Protection Board, Fund for Livestock Producers
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Office of the Environmental Commissioner
Office of the Information and Privacy Commissioner
Office of the Children's Lawyer
Office of the Ombudsman
Ontario Clean Water Agency (December 31)
Ontario Development Corporation
Ontario Educational Communications Authority
Ontario Electricity Financial Corporation
Ontario Exports Inc.
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Heritage Foundation
Ontario Housing Corporation (December 31)
Ontario Immigrant Investor Corporation
Ontario Media Development Corporation
Ontario Northland Transportation Commission (December 31)
Ontario Place Corporation
Ontario Racing Commission
Ontario Realty Corporation
Ontario Securities Commission
Ontario Tourism Marketing Partnership Corporation
Province of Ontario Council for the Arts
Provincial Judges Pension Fund, Provincial Judges Pension Board
Public Guardian and Trustee for the Province of Ontario
Toronto Area Transit Operating Authority
TVOntario Foundation

(II) Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor
Board of Community Mental Health Clinic, Guelph
Niagara Parks Commission (October 31)
Ontario Mental Health Foundation
St. Lawrence Parks Commission
Workplace Safety and Insurance Board (December 31)

Notes:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 2000/01 fiscal year:

   Additions:
   - Investor Education Fund
   - TVOntario Foundation

   Deletions:
   - Agricultural Rehabilitation and Development Directorate of Ontario
   - Eastern Ontario Development Corporation
   - Egg Fund Board (December 31), Fund for Egg Producers
   - Northern Ontario Development Corporation
   - Ontario Farm Products Marketing Commission, Fund for Milk and Cream Producers
   - Ontario Junior Farmer Establishment Loan Corporation
   - Ontario Lottery Corporation
   - Ontario Transportation Capital Corporation
   - St. Clair Parkway Commission

   Inactive:
   - North Pickering Development Corporation

EXHIBIT TWO

Crown-controlled Corporations

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers, and other related documents
Art Gallery of Ontario Crown Foundation
Baycrest Hospital Crown Foundation
Big Thunder Sports Park Ltd.
Board of Funeral Services
Brock University Foundation
Carleton University Foundation
CIAR Foundation (Canadian Institute for Advanced Research)
Canadian Opera Company Crown Foundation
Canadian Stage Company Crown Foundation
Dairy Farmers of Ontario
Deposit Insurance Corporation of Ontario
Education Quality and Accountability Office
Foundation at Queen's University at Kingston
Grand River Hospital Crown Foundation
Lakehead University Foundation
Laurentian University of Sudbury Foundation
McMaster University Foundation
McMichael Canadian Art Collection
Metropolitan Toronto Convention Centre Corporation
Moosonee Development Area Board
Mount Sinai Hospital Crown Foundation
National Ballet of Canada Crown Foundation
Nipissing University Foundation
North York General Hospital Crown Foundation
Ontario Family Health Network
Ontario Foundation for the Arts
Ontario Hydro Sevices Company Inc.
Ontario Lottery and Gaming Corporation
Ontario Mortgage Corporation
Ontario Municipal Employees Retirement Board
Ontario Pension Board
Ontario Power Generation Inc.

Exhibit Two

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers, and other related documents (continued)
Ontario Superbuild Corporation
Ontario Trillium Foundation
Ottawa Congress Centre
Primary Care Implementation Agency
Royal Botanical Gardens Crown Foundation
Royal Ontario Museum
Royal Ontario Museum Crown Foundation
Ryerson Polytechnic University Foundation
Science North
Shaw Festival Crown Foundation
St. Clair Parkway Commission
St. Michael's Hospital Crown Foundation
Stadium Corporation of Ontario Limited
Stratford Festival Crown Foundation
Sunnybrook Hospital Crown Foundation
Toronto East General Hospital Crown Foundation
Toronto Hospital Crown Foundation
Toronto Islands Residential Community Trust Corporation
Toronto Symphony Orchestra Crown Foundation
Trent University Foundation
University of Guelph Foundation
University of Ottawa Foundation
University of Toronto Foundation
University of Waterloo Foundation
University of Western Ontario Foundation
University of Windsor Foundation
Waterfront Regeneration Trust Agency
Wilfrid Laurier University Foundation
Women's College and Wellesley Central Crown Foundation
York University Foundation

Notes:
Changes during the 2000/01 fiscal year:
Additions:

- Ontario Family Health Network
- Ontario Lottery and Gaming Corporation
- Primary Care Implementation Agency
- St. Clair Parkway Commission

Deletions:

- Ontario Casino Corporation

EXHIBIT THREE

Treasury Board Orders

Amounts Authorized and Expended Thereunder Year Ended March 31, 2001

Ministry	Date of Order	Authorized $	Expended $
Agriculture, Food and Rural Affairs	Feb. 13, 2001	4,328,700	4,328,700
	Mar. 1, 2001	90,000,000	89,985,006
	Apr. 3, 2001	719,900	572,676
	Apr. 10, 2001	58,400	—
		95,107,000	94,886,382
Attorney General	Nov. 2, 2000	23,144,700	20,819,594
	Feb. 27, 2001	52,468,100	18,632,062
	Mar. 20, 2001	27,381,300	21,737,571
		102,994,100	61,189,227
Citizenship, Culture and Recreation	Apr. 3, 2001	3,220,900	1,372,502
	Apr. 10, 2001	98,200	—
		3,319,100	1,372,502
Community and Social Services	Dec. 7, 2000	123,000,000	115,023,217
	Jan. 30, 2001	96,479,000	—
	Apr. 3, 2001	23,985,700	19,845,704
		243,464,700	134,868,921
Consumer and Commercial Relations*	Aug. 10, 2000	10,333,000	7,408,403
	Mar. 20, 2001	7,035,700	6,799,911
	Apr. 10, 2001	17,100	—
		17,385,800	14,208,314
Correctional Services	Apr. 3, 2001	14,185,000	13,906,735
	Apr. 10, 2001	170,100	13,543
		14,355,100	13,920,278
Economic Development and Trade	Apr. 3, 2001	380,000	65,159
Education	Apr. 3, 2001	33,854,100	11,139,262
	Apr. 10, 2001	201,900	—
		34,056,000	11,139,262
Energy, Science and Technology	Jan. 30, 2001	2,200,000	1,249,862
Environment	Feb. 13, 2001	4,560,600	4,560,600
	Mar. 20, 2001	29,375,800	23,956,749
		33,936,400	28,517,349

* Ministry name changed to Consumer and Business Services during the fiscal year.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

Exhibit Three

Ministry	Date of Order	Authorized $	Expended $
Health and Long-Term Care	Mar. 1, 2001	116,039,700	102,312,400
	Mar. 20, 2001	99,359,100	98,967,595
	Apr. 3, 2001	520,585,900	477,386,381
		735,984,700	678,666,376
Labour	Feb. 27, 2001	1,182,000	1,058,804
	Mar. 20, 2001	3,452,700	2,919,015
		4,634,700	3,977,819
Management Board Secretariat	Aug. 29, 2000	11,097,000	8,000,920
	Feb. 27, 2001	4,323,800	4,323,800
	Apr. 3, 2001	31,678,300	30,420,062
	Apr. 10, 2001	3,457,100	3,030,023
		50,556,200	45,774,805
Municipal Affairs and Housing	Mar. 20, 2001	285,261,200	285,260,561
	Mar. 26, 2001	53,823,700	53,823,700
	Mar. 26, 2001	25,000,000	25,000,000
	Apr. 3, 2001	15,978,000	7,759,350
	Apr. 10, 2001	50,000,000	48,151,356
		430,062,900	419,994,967
Natural Resources	Feb. 13, 2001	22,000,000	22,000,000
	Apr. 3, 2001	12,405,700	12,372,967
		34,405,700	34,372,967
Northern Development and Mines	Jan. 30, 2001	14,214,200	13,859,000
	Mar. 5, 2001	24,900,000	24,882,531
	Apr. 10, 2001	42,600	39,636
		39,156,800	38,781,167
Ontario Native Affairs Secretariat	Jan. 30, 2001	397,400	396,320
Solicitor General	Nov. 30, 2000	7,528,100	7,528,100
	Apr. 3, 2001	43,580,000	40,845,113
	Apr. 10, 2001	957,900	759,298
		52,066,000	49,132,511
Tourism	Apr. 3, 2001	2,850,000	2,594,173
Training, Colleges and Universities	Apr. 3, 2001	27,862,100	25,473,639
	Apr. 3, 2001	100,000,000	100,000,000
	Apr. 10, 2001	58,600	—
	Apr. 10, 2001	60,000,000	60,000,000
	Apr. 10, 2001	41,600	41,599
		187,962,300	185,515,238
Transportation	Mar. 20, 2001	22,638,700	22,638,563
TOTAL TREASURY BOARD ORDERS		**2,107,913,600**	**1,843,262,162**

Exhibit Three

Ministry	Date of Order	Authorized $	Expended $
Health and Long-Term Care	Mar. 1, 2001	116,039,700	102,312,400
	Mar. 20, 2001	99,359,100	98,967,595
	Apr. 3, 2001	520,585,900	477,386,381
		735,984,700	678,666,376
Labour	Feb. 27, 2001	1,182,000	1,058,804
	Mar. 20, 2001	3,452,700	2,919,015
		4,634,700	3,977,819
Management Board Secretariat	Aug. 29, 2000	11,097,000	8,000,920
	Feb. 27, 2001	4,323,800	4,323,800
	Apr. 3, 2001	31,678,300	30,420,062
	Apr. 10, 2001	3,457,100	3,030,023
		50,556,200	45,774,805
Municipal Affairs and Housing	Mar. 20, 2001	285,261,200	285,260,561
	Mar. 26, 2001	53,823,700	53,823,700
	Mar. 26, 2001	25,000,000	25,000,000
	Apr. 3, 2001	15,978,000	7,759,350
	Apr. 10, 2001	50,000,000	48,151,356
		430,062,900	419,994,967
Natural Resources	Feb. 13, 2001	22,000,000	22,000,000
	Apr. 3, 2001	12,405,700	12,372,967
		34,405,700	34,372,967
Northern Development and Mines	Jan. 30, 2001	14,214,200	13,859,000
	Mar. 5, 2001	24,900,000	24,882,531
	Apr. 10, 2001	42,600	39,636
		39,156,800	38,781,167
Ontario Native Affairs Secretariat	Jan. 30, 2001	397,400	396,320
Solicitor General	Nov. 30, 2000	7,528,100	7,528,100
	Apr. 3, 2001	43,580,000	40,845,113
	Apr. 10, 2001	957,900	759,298
		52,066,000	49,132,511
Tourism	Apr. 3, 2001	2,850,000	2,594,173
Training, Colleges and Universities	Apr. 3, 2001	27,862,100	25,473,639
	Apr. 3, 2001	100,000,000	100,000,000
	Apr. 10, 2001	58,600	—
	Apr. 10, 2001	60,000,000	60,000,000
	Apr. 10, 2001	41,600	41,599
		187,962,300	185,515,238
Transportation	Mar. 20, 2001	22,638,700	22,638,563

EXHIBIT FOUR

Extracts from the *Audit Act*

R.S.O. 1990, Chapter A.35

Definitions

1. In this Act,

"agency of the Crown" means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

(a) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,

(b) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,

(c) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or

(d) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor's report and the working papers used in the preparation of the auditor's statement are required to be made available to the Auditor under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*;

"Auditor" means the Provincial Auditor;

"Crown controlled corporation" means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council;

"inspection audit" means an examination of accounting records;

"public money" has the same meaning as in the *Financial Administration Act*.

Audit of Consolidated Revenue Fund

9.—(1) The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise.

Audit of agencies of the Crown

(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor.

Audit of Crown controlled corporations

(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,

(a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;

(b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;

(c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation.

Additional examination and investigation

(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary.

Information and access to records

10. Every ministry of the public service, every agency of the Crown and every Crown controlled corporation shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the Auditor under this Act.

Annual report

12.—(1) The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any matter that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session.

Contents of report

(2) In the annual report in respect of each fiscal year, the Auditor shall report on,

(a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;

(b) the examination of accounts of receipts and disbursements of public money;

(c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;

(d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;

(e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;

(f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,

(i) accounts were not properly kept or public money was not fully accounted for,

(ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,

(iii) money was expended other than for the purposes for which it was appropriated,

(iv) money was expended without due regard to economy and efficiency, or

(v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory.

Inspection audit

13.—(1) The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient.

Attendance at standing Public Accounts Committee of the Assembly

16. At the request of the standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

(a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and

(b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee.

Special assignments

17. The Auditor shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor.

Audit working papers

19. Audit working papers of the Office of the Auditor shall not be laid before the Assembly or any committee of the Assembly.